

City of Madison Heights, Michigan

Comprehensive Annual Financial Report

June 30, 2003

City of Madison Heights, Michigan

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Introductory Section

September 25, 2003

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Introduction

We are submitting herewith the Comprehensive Annual Financial Report of the City of Madison Heights for the fiscal year ended June 30, 2003. It is the responsibility of the City management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City's funds and account groups, as well as those of the City's discretely presented component units. The Comprehensive Annual Financial Report contains necessary disclosures useful in providing an understanding of the combined statements and the individual fund and account group statements.

The June 30, 2003 Comprehensive Annual Financial Report of the City of Madison Heights encompasses five sections: introductory, financial, required supplemental, other supplemental, and statistical.

The introductory section contains information on the City's current and future projects, departmental services and accomplishments, and an overview of the City's financial position.

The financial section contains the independent auditor's report, management's discussion and analysis, basic financial statements, and the notes to the financial statements. These basic financial statements include both government-wide and fund-based financial statements for the governmental funds. In addition, the proprietary funds, fiduciary funds, and component units are presented.

The required supplemental section includes budgetary comparison schedules of the major governmental funds as well as pension system funding schedules and related notes.

The other supplemental section includes nonmajor fund combining statements and the Police and Fire Retirement System changes in reserves schedules.

The statistical section contains 10-year histories of revenues, expenditures, tax levies, assessed valuation, etc.

According to the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the City is required to undergo an annual federal single audit. Information related to the single audit, including the schedule of expenditures of federal awards, is issued under separate cover, as are auditor's reports covering the internal control structure and compliance with applicable laws and regulations.

The Comprehensive Annual Financial Report includes the City of Madison Heights, Michigan and any component units included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units included in the City's reporting entity include the Housing Commission, Economic Development Corporation, and the Downtown Development Authority, which are included as discretely presented component units, as well as the Municipal Building Authority, which is consolidated into the City's financial statements.

The Madison Heights Housing Commission receives Section 8 funds from the United States Department of Housing and Urban Development to provide rental assistance for families with low incomes. Tenants pay approximately 30 percent of their income toward the gross contract rent and the Housing Commission issues Housing Assistance Payments to the landlords for the remaining portion. Eligibility criteria are established by the Department of Housing and Urban Development and each tenant must meet the eligibility guidelines.

The Economic Development Corporation issues revenue bonds to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district and promote economic growth within the downtown district.

The Municipal Building Authority was created for the sole purpose of issuing and repaying debt for the construction and improvement of facilities within the City. The Building Authority was inactive during fiscal year 2002-2003.

Economic Conditions

Regional Setting

The City of Madison Heights is located near the southeast corner of Oakland County, adjacent to the western boundary of Macomb County and approximately two miles north of the City of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-75 (I-75) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

Incorporated in 1955, Madison Heights has grown and prospered significantly over the past 48 years. According to the 2002 Land Use Survey, only 2 percent of the City's total acreage is vacant land. Most of the growth occurring in Oakland County has now shifted to the north and west where vacant land is available.

Oakland County continues to experience the tremendous growth that began in the late 1980s. By 1990, Oakland County led the state in employment growth, and continues to lead the state in private sector employment growth. The proximity to the I-696 and I-75 freeways provide easy access to employment centers and residential communities throughout Oakland County and has made Madison Heights a strategic location for both employers and employees.

Oakland County Economic Forecast

Nationally known economists from the University of Michigan Institute of Labor and Industrial Relations recently presented the results of the 2003-2004 Economic Outlook for Oakland County at the 18th Annual Outlook Luncheon.

By the middle of last year, the Oakland County economy seemed poised for significant recovery from its first downturn in a decade. The rate of job loss was trimmed by 75 percent during the first half of 2002 after its bleak performance during 2001 and Oakland County appeared to be well on the way back. All of the building blocks looked in place for a healthy expansion of both the local and national economies.

The local economy did indeed continue to improve in the second half of 2002, but not at the rate anticipated. A soft spot was hit in early 2003. The economic fundamentals seemed to be in place, but something went wrong.

A big part of that "something" was a waning of the consumer and business confidence that is a key to recovery. Confidence weakened with mounting concerns and uncertainties over the collapse of the high-tech sector, scandals surrounding corporate governance and behavior, and geopolitical tensions, including the war in Iraq and the ongoing fear of terrorism. With the resolution of the war much clearer now, consumer confidence appears to be on the rebound, but apprehensions linger about job creation. Two of the pillars of the Oakland economy, manufacturing and high tech, have been a drag on the pace of recovery as the turnaround in business investment remains sluggish.

As we move into the postwar economy in the second half of 2003, the economic fundamentals appear to be in place for a more sustained recovery. Confidence is improving, but consumers and businesses remain cautious.

Economists are forecasting the Oakland County economy will return to positive job growth in the second half of 2003. They expect job creation to be moderate but sustained over the next two years, with a gain of 2,200 jobs during the second half of 2003 and another 10,100 jobs added during 2004. The pattern of job growth is determined not only by the underlying economic conditions, but also by a significant transfer of workers to job sites across county lines by several major firms. There is a net outflow of transfers from Oakland County initially, but a net inflow of transfers by the second half of 2004. Although the rebound in the Oakland County economy reverses the downturn that has persisted since early 2001, further upward momentum would be required to return to the boom times of the previous decade.

As evidenced by events of the past few years, forecasting is never without risks. Three risks stand out that could affect the local economy differently than foreseen at this time. The first is the downside risk related to geopolitical conditions, particularly the possibility of an upswing in anti-U.S. terrorism and its negative impact on such vulnerable sectors as travel-tourism. A second downside risk is that concerns over the domestic economy mute the expected postwar snap-back in consumer confidence. A third risk pertains to the prospects for high-tech investment. The current forecast sees a steady but not spectacular recovery through the end of 2004. An argument could be made for both downside or upside risks in this case. What is unambiguous is that the path business investment takes will have significant implications for the Oakland County outlook in the near term.

It is also unambiguous that the local economy remains fundamentally sound after enduring the current downturn. There has been no change in any of the fundamental characteristics that earned Oakland County membership in the elite club of local economic achievers in the first place. Unless, of course, the build-up of high-value-added activities such as science, engineering, and computer systems design and the ongoing investment in education, a skilled workforce, and technology turn out to be the wrong strategies. In that case, Oakland County has a much more fundamental problem than weathering business cycle downturns. But then, so does the rest of the country, and the understanding of where the economy is headed in this information age will have to be reassessed.

The most recent financial forecast from University of Michigan economists indicates that the state's economy is finally in a position to grow again at a healthy pace. They expect a sustained employment rebound during 2003 through 2005 at a pace comparable to the second half of the 1990s. The state's private non-manufacturing sector has already begun to strengthen, posting gains in the last two quarters, and manufacturing employment is projected to turn around early next year.

Local Economic Base

Madison Heights is a full-service modern community. It is fiscally sound, stable, and has many advantages accruing to it because of its favorable tax base, housing mix, and business climate. City officials proudly point to the fact that over 85 percent of the buildings are single-family homes or condominiums, while almost 58 percent of the City's tax base (real and personal property) is high-yield light industrial and commercial facilities.

The diversity of the City's economic base is reflected in its building stock:

Single-family homes*	9,655	Homes
Condominiums - 9 complexes*	331	Units
Sr. Citizen Towers - 5 buildings	709	Units
Rental apartments - 24 complexes	2,448	Units
Mobile home parks - 3 locations	501	Sites
Shopping centers (1.3 million sq. ft.)	27	Centers
Hotel/Motels - 11 buildings	1,063	Rooms
Offices (860,626 sq. ft.)	97	Buildings
Commercial (gas stations/retail/restaurants, etc.)	529	Buildings
Light industrial (10.4 million sq. ft.)	<u>491</u>	Buildings
Total units/buildings	<u>15,851</u>	

* Single-family homes range in value from \$55,000 to in excess of \$313,000; condominiums range from \$65,000 to \$160,000.

Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (66 percent of total 2002-2003 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's current tax base, including the DDA district, which will be the basis for property tax revenue for the fiscal year 2003-2004 budget.

By Class	Taxable Value	Percent
Real property	\$ 911,558,390	84.3
Personal property	<u>169,222,520</u>	<u>15.7</u>
Total	<u>\$ 1,080,780,910</u>	<u>100.0</u>
By Use		
Residential	\$ 453,207,950	41.9
Commercial	234,144,670	21.7
Industrial	224,205,770	20.7
Personal property	<u>169,222,520</u>	<u>15.7</u>
Total	<u>\$ 1,080,780,910</u>	<u>100.0</u>

Total taxable value for all property within Madison Heights has grown 38 percent over the last 10 years through June 30, 2003 or approximately 3.8 percent per year on average. Historically, the fastest rate of value growth of over 10 percent per year occurred in the late 1980s. From 1992 to 1993, the City experienced its only decline (0.5 percent) in values. For the latest 12-month period, City taxable values have shown an average rate of growth of approximately 3.1 percent overall. Real property taxable values increased by approximately 4.9 percent, while personal property taxable values decreased by approximately 6 percent.

Major Business

Another way to judge the strength of a city's local economy is to measure its reliance on a type of business or a single business. While some cities rely heavily on a major automotive manufacturing plant, Madison Heights' business base is made up of a large number of smaller businesses. Having smaller employers reduces the impact of any one business deciding to relocate or going out of business.

The tables below show the City's major taxpayers as of December 31, 2002, the valuation date related to the property tax revenue of the City for the year ending June 30, 2004.

Taxpayer	Type of Business	Total Taxable Value (\$ Millions)
Gordon Begin Co.	Apartments	\$ 18.2
Liberty Property LTD Partnership	Industrial landlord	17.1
S&M Heights/Madison Place	Shopping center landlord	13.8
Detroit Edison Company	Electrical utility	12.9
Meijer, Inc.	Retail sales	11.8
BT-OH, LLC (United Parcel Service)	Parcel delivery	10.0
Saturn, I2-75 LTD	Auto engineering and design	9.0
First Industrial LP	Industrial landlord	8.1
Co-operative Services	Senior high-rise apartment	7.7
Great Lakes Property Group Trust	Apartments	7.6
Ogura Corporation	Automotive supplier	7.5
Target Corporation	Retail sales	7.2
MNP/The Berman Family LLP (Alpha Bolt)	Parts manufacturing	6.9
Ramco-Gershenson/Kmart	Shopping center landlord	6.4
Commercial Steel Treating	Steel treating	5.7
Costco	Warehouse retail	5.7
Home Depot USA, Inc.	Warehouse retail	5.0
Howard Plating	Electroplating	4.7
TFSA/Ring Screw	Fastener manufacturing	3.7
Sapphire Investment Association	Industrial landlord	3.7
Total		<u>\$ 172.7</u>

The top 20 taxpayers made up 16.0 percent of the total taxable valuation citywide. The highest taxpayer (Gordon Begin Co.) amounts to only 1.7 percent of the total value.

Local Employment

Madison Heights has a strong, trained workforce. Several vocational schools in the area encourage young people to seek training in industrial-related careers. Also, within a seven-mile radius, there are some of Michigan's finest colleges and business schools.

Based on information provided by the Oakland County Economic Development Department, the City's major employers include the following:

Name	Type of Business	Employees
D-M-E Company	Special dies, tools, jigs, and fixtures	874
St. John Oakland Hospital	Medical care and surgical hospital	779
United Parcel Services	Trucking and courier services	606
Super Kmart	Discount retailer	603
Henkel Surface Technologies	Chemical preparation	600
MSX International	Auto engineering	550
Cincinnati Milacron (GTE Valenite)	Machine tools, metal cutting type	500
EDS/Saturn Corporation	Auto design and engineering	450
Trigon Holding, Inc.	Highway and street construction	425
Triangle Electric	Electric work	403
Meijer	Retail store	380
Lamphere Schools	Public school district	380
Grayrose, Inc.	Help supply services	352
Madison Schools	Public school district	340
ADT Security Systems	Security systems services	327
Telecom Technicians	Electrical work	305
Alpha Bolt	Bolts, nuts, rivets, and washers	300
Target Store	Department store	300
Weldmation, Inc.	Welding apparatus	300
Infusystem	Medical equipment rental	290
PLS Industries, Inc.	Plating and polishing	285
Valley Automotive	Motor vehicle parts and accessories	260
Henry Ford Hospital	Medical care and surgical hospital	255
Code Alarm, Inc.	Electrical equipment and supplies	250
McNaughton - McKay Electric Co.	Electronic apparatus and equipment	235
Dayton-Hudson (Mervyn's)	Department stores	232

Based on the latest available United States Census information, the City's three largest industries, as measured by employment, are manufacturing, service, and retail trade. By occupation, the most common positions are administrative support, production, machine operators, managerial, and professional specialty. Also, based on information from the Michigan Employment Security Commission, Madison Heights' labor force stands at 20,575, with an unemployment rate of 7.1 percent.

Economic Development Initiatives

Historically, the City has made use of economic development revenue bond financing, tax abatements, infrastructure improvements, tax increment financing, and site assemblage as local economic development initiatives.

The City's industrial building vacancy rate stands at about 12.6 percent and our commercial vacancy rate is 7.3 percent as of September 2003. Relative to other communities in metropolitan Detroit, the vacancy rate is good, but our City is working to make it even better.

As part of the fiscal year 2002-2003 budget, the City Council authorized the creation of an Economic Development Coordinator and the position was filled in January 2003. This position supports the Downtown Development Authority and the Brownfield Redevelopment Authority, and provides assistance to the Planning Commission and the City Council regarding economic development projects. The program is responsible for: developing strategy and initiating projects; assembling plans, and directing programs to improve the economic base of the community to help create employment opportunities: reducing commercial and industrial vacancies; and improving/maintaining a viable mix of businesses. In addition, the Division maintains a network of communication, outreach, and cooperation with area real estate brokers and development firms, property owners, business owners, civic, community, and business groups to coordinate and enhance business relationships, recruiting, and retention efforts.

Major selling points for the vacant industrial buildings in Madison Heights include their size (225-130,000 square feet), low City and County taxation, and close proximity to major airports and freeway entrances.

To assist in the promotion of this business sector, five major industrial park areas have been established including:

Stephenson Industrial Research Corridor, Stephenson Highway from 12 to 14 Mile Roads

Madison Industrial Research District in the Dequindre and 14 Mile area, extending south to Whitcomb and west to John R

Public Service Center Industrial District on Girard and Ajax Drive, off John R between 12 and 13 Mile Roads

Ten Mile and John R Industrial District running along 10 Mile from Dequindre to John R, and along John R from 10 Mile to Lincoln

Interchange 696 Industrial District, bounded by Dequindre, Commerce Drive, Interstate-696 service drive, and Lincoln

The following is a profile of these industrial parks:

		Average Building Size (Square Feet)	Industrial Space Square Feet (Millions)	2003 Taxable Value (\$ Millions)
	Bldgs.			
Stephenson Industrial Research Corridor	85	33,797	2.9	\$ 55.1
Madison Industrial Research District	206	23,407	4.8	108.6
Public Service Center Industrial District	33	11,748	0.4	7.7
Ten Mile and John R Industrial District	76	4,644	0.3	7.0
Interchange 696 Industrial District	51	27,061	1.4	29.8
I-75/Twelve Mile District	2	109,483	0.2	4.7
Other industrial	36	12,654	0.4	10.0
Totals and averages	489	21,451	10.4	\$ 222.9

In an effort to promote economic development in our area, Oakland County has launched an effort called “Automation Alley.” The term “Automation Alley” has been used informally in Oakland County for some time.

“Automation” became a catchword to identify the high-tech companies gravitating to Oakland County. Since they all were located close to one of two linked interstate freeways, I-75 and I-696, the term “Alley” was used to describe this high-speed, high-tech corridor. Automation Alley reflects both the technological orientation and geographic location of about 1,800 businesses in Oakland County, Michigan, and Madison Heights is at the intersection of the I-75 and I-696 Corridors.

Automation Alley is made up of the world’s most dynamic and advanced technology-focused companies. Industries range from telecommunications, computer software/hardware, and information systems to consumer products, industrial processes, automotive research and development, diversified manufacturing, and health care.

Oakland County has become an internationally recognized economic powerhouse. The Automation Alley Consortium was established to develop programs to support members in their efforts to attract world-class, high-technology workers.

Automation Alley’s 1,800 progressive businesses do not restrict recruitment efforts to the local area. They compete directly on a national level with other national powerhouses such as California’s Silicon Valley and Boston’s Route 128 for the world’s best employment prospects. By implementing a dynamic marketing strategy through Automation Alley, Oakland County has enhanced its ability to compete in the global marketplace.

Major Initiatives

The City's major accomplishments over the last year can be divided into three areas: public safety, services, and parks and libraries.

Public Safety

In 2003, the police department continued to train for the new challenges of post 9-11 policing. Personnel were selected and trained as new SWAT, motorcycle unit, and bicycle patrol officers. All three of these units augment the department's community policing response to daily operations.

In 2004, the department will continue to support Oakland County's plan to initiate countywide implementation of the new 800-megahertz radio system, field-based reporting, and records management systems. In addition, a conversion of police records to the County's data system is expected to be completed. These units and programs will help the police department in performing its essential roles of protecting the public, enhancing the quality of life, and eliminating the fear of criminal activity within the community.

2004 will also see the continuation of the City's inoculation program by providing testing and a series of vaccinations to ensure police department personnel protection against exposure to Hepatitis B. This program is an important part of keeping our officers healthy as they protect and serve City residents.

The year of 2003 brought a number of changes to the Madison Heights fire department. The technical rescue response team was established, and the hazardous materials response team was expanded, along with its capabilities. All command staff completed fire officer training, and the department took delivery of a new triple combination pumper and medium-duty ambulance.

Construction began on the voter-approved Headquarters Fire Station Project, and is scheduled for completion in the summer of 2004. Renovations are planned for Fire Station Two, and demolition and restoration of the existing fire station site is scheduled for this year as well.

The department will be busy with additional projects in 2004 as well. Technical rescue, weapons of mass destruction (WMD), and bioterrorism incidents response capabilities will be upgraded through ongoing training. Finally, a Council-approved City goal will see a new fire rescue tactical medical team trained and equipped to provide patient care to individuals in hostile police situations.

Services

Road maintenance continues to be a high priority item. Our residential and commercial/industrial road programs saw the completion of Wolverine, from Spartan to Eleven Mile, Howard, north of Whitcomb, Losee, from Howard to Milton, and Milton, from Whitcomb to Mandoline. In addition, Phases 3 and 4 of the Stephenson Highway turnarounds were completed, along with the intersection of Hales at 13 Mile Road.

The City's contractor undertook two road sectional concrete replacement projects in 2003: Elliott just west of Shirley and Rowland from John R to Alger. The Streets Division employees continued to remove and replace smaller sectional concrete in numerous bad areas. The Division also paved a new walking path at Civic Center Park to re-route the old path around the new fire station.

The 2004 road improvement schedule will see Greig reconstructed from John R to Dequindre. This year will also see the initiation of the right-hand turn lanes project. This one-year trial project was developed as a City goal to target the installation of right-hand turn lane(s), reduction of commercial driveways, and installation or extension of acceleration/deceleration lane(s) along major rights-of-way to reduce congestion, facilitate better traffic flow, and improve public safety. Also planned for next year is sidewalk installation at I 4 Mile under I-75.

2003 saw the hiring of an Economic Development Coordinator to assist with business retention/attraction, the Downtown Development Authority, the Brownfield Redevelopment Authority, and industrial/commercial development and redevelopment. This position has already seen positive results in supporting our local businesses, with more of the same expected in 2004.

In February 2003, the City completed a major overhaul and redesign of its Web site, www.madison-heights.org. The new site has received over 130,000 hits to date and, with 1.5 gigabytes of data online, offers a wealth of information and interactive services to our residents and businesses.

Parks and Libraries

The Department of Public Service experienced a devastating fire early Good Friday morning. Despite the fact that this fire destroyed or debilitated over 30 vehicles, numerous tools, and pieces of equipment, service delivery never wavered. While working out of a temporary headquarters in the senior center, the department managed to reorder, replace, and rebuild in a little over four months, beating the initial estimate by eight months!

Once again, all this was done while maintaining the high level of service residents have come to expect and appreciate.

Water and Sewer and Parks Divisions continued to wage a campaign against the West Nile virus. Catch basins were cleared last fall and in the spring. Larvicide was placed in these structures as well as ponds in City parks and throughout the City. Treated areas are sampled regularly to make sure that the larvicide is doing its job. Mosquito traps have also been set up and contents sent out for testing. The battle will continue to keep the culex mosquito at bay.

In addition to West Nile virus watch, the Sewer Division replaced watermain on Wolverine and Rowland and eliminated a sanitary sewer pump station on Guthrie.

The Parks Division continued the work of improving playground safety by adding soft fall surfacing material in several additional parks.

The Recreation Division was able to secure additional funding from the Friends of Madison Heights Youth to enlarge the popular “Ramps” Skate Park. The additional apparatus is a great hit and ensures our position as the number one municipal skate park in south Oakland County.

Tree trimming remained a priority for the Streets Division this year. Spring storms and related damage left numerous branches to trim and chip, and trees to remove. The major thoroughfares were also addressed with trees in front of local businesses being trimmed and elevated.

The City’s libraries also made progress in 2003. Through a grant obtained through the Oakland County Research Library, Madison Heights and a number of other south Oakland County communities were able to introduce ELLIS (English Language Literacy Instruction Software) software. ELLIS is used by those learning English as a second language and has been well received by the multicultural community of Madison Heights.

Audio books remain one of the department’s more popular collections, and books on CD, introduced less than a year ago, have been extremely well received. The year 2003 also saw the youth services librarian introduce new ideas and programs that yet again have been well received by City youth and young adults.

Next year will see the library implement a new shared circulation and catalog system as part of The Library Network in order to provide improved service to the residents of Madison Heights. The Library Advisory Board continues to meet toward this end with hopes of facility improvements as the economic climate allows.

Future Projects

The City has set as a budget goal a high level of basic services that will be maintained with sufficient staff and appropriate equipment and facilities for fire suppression, emergency medical services, police, and public services programs. The budget contains the following key program enhancements, which will be provided within our current financial resources:

General Fund

Public health-related program improvements including:

\$	16,000	West Nile virus mosquito prevention program
\$	12,000	Emerald Ash Borer tree treatment program

Public safety-related program improvements including:

\$	5,926,000	Cost of acquiring, constructing, furnishing, and equipping a new fire station and related training tower, parking, site improvements, and sled hill redevelopment, and constructing an underground storm water detention structure and draft pit and demolishing the existing fire station, redeveloping the Thirteen Mile Road park frontage and rehabilitating Station #2
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\$ 4,500 Training and equipping the new fire reserve tactical medical team to provide patient care to individuals in hostile situations requiring police intervention

\$ 9,000 Police department Hepatitis B testing and vaccination program

Parks and Leisure Service program improvements including:

\$ 43,000 Park improvements including: Rosie's Park playscape (\$40,000), contingent on the sale of house north of the Youth Center and (\$3,000) enhancement to either the Skate Park at Civic Center Park or the Bike Motor Cross track at Rosie's Park

\$ 37,917 Library purchases including books, videos, and audio/visuals

\$ 126,290 Capital Fund projects including \$35,000 to separate the shared utilities between the Main Library and City Hall and the remaining \$91,000 would be programmed for a \$95,000 emergency generator for City Hall. If the Main Library project proceeds, funding will go toward the renovation/expansion.

\$ 70,000 **Proposal "V" Millage vehicle replacements including:**

One patrol vehicle and related lightbar
One police investigative vehicle
One street maintenance pickup

\$ 64,500 **Non-Proposal "V" vehicle replacements including:**

One solid waste brush chipper truck

\$ 6,000 **Technological advancements including:**

One City Council Chamber digital recording system

\$ 2,700 **Building and facility related improvements including:**

Senior Citizens Center furniture replacement

Major Street Fund

\$ 150,000 Program to install right-hand turn lanes, reduce commercial driveways, and install or extend acceleration/deceleration lanes along major rights-of-way

\$ 150,000 Fourteen Mile I-75 underpass south side sidewalk (Total project \$150,000, City contribution \$50,000)

\$ 110,000 Stephenson Highway turnarounds reconstruction Phase IV

\$ 80,000 Ajax and John R traffic signal upgrade

Local Street Fund

- \$ 869,000 **Proposal “R” Millage road reconstruction scheduled as part of Year Eight of Neighborhood Road Improvement Program including:**
 - Wolverine from Spartan to Eleven Mile Road
- \$ 170,000 Expanded annual sectional concrete replacement on Elliott and Rowland
- \$ 95,000 Crack and joint sealing program for neighborhoods bounded by Whitcomb, Stephenson Highway, Thirteen Mile and Campbell, and a second project bounded by Gardenia, Dequindre, Eleven Mile, and John R

Downtown Development Authority Fund

- \$ 36,900 Downtown Development Authority (DDA) funding match of 40 percent for new Economic Development Program
- \$ 23,000 DDA identification project based on review of alternatives including banners, signs, and/or other
- \$ 20,000 Installation payment to Special Assessment Revolving Fund for Eleven Mile Road and John R clock tower improvement
- \$ 16,000 Public right-of-way mowing
- \$ 5,800 Sign upgrade and blight elimination program

Drug Forfeiture Fund

- \$ 37,000 One patrol and one undercover vehicle
- \$ 2,000 Surveillance equipment for Special Investigation Unit and Special Weapons and Tactical Team

Community Improvement Fund

- \$ 35,000 Expand the senior citizen home chore program by a 60 percent increase in lawn mowing and a 50 percent increase in snow shoveling

Law Enforcement Block Grant

- \$ 12,500 Evidence storage and simulation equipment
- \$ 5,000 Communication equipment

Special Assessment Fund

\$ 200,000 Year Two Sidewalk Replacement and Gap Program

Water and Sewer Fund

\$ 325,000 Re-route Wolverine Lift Station sewer system (total cost \$1,000,000)

\$ 152,500 Beaupre Pump Station (total cost \$220,000)

\$ 199,000 Watermain replacements as part of Year Nine of Ten-year Neighborhood Road Improvement Program on Greig between John R and Dequindre

\$ 124,000 Replacement of watermains on Lennox from Sprague to University and Rowland from John R to Alger

\$ 142,000 Replacement of pickup truck and one front-end loader

\$ 60,000 Roof repairs at Department of Public Service Building

\$ 48,000 Commercial water meter replacements

\$ 12,000 Replace trailer-mounted generator

\$ 7,500 Computer network high-speed scanner

Motor Pool Fund

\$ 29,500 Upgrade fuel pump stations at police station and Department of Public Service

Departmental Services and Accomplishments

Under the present City Charter adopted in 1955, Madison Heights is governed by the Council Manager form of government. Madison Heights provides a full range of services to its residents through its District Court, city clerk, city assessor, personnel, finance, custodial and maintenance, police, fire, streets, solid waste, senior citizens, recreation, nature center, parks, library, community development, community improvement, general administration, water and sewer, and motor pool departments, divisions, and offices.

District Court

The 43rd District Court, Madison Heights Division was established by the State of Michigan to render judicial decisions for the citizens of the City. The State is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court employees are supervised by the District Court Judge, who is an employee of the State of Michigan and elected by local voters.

City Clerk's Office

The City Clerk's Office is responsible for the official records of the City. The Department's employees are represented at all City Council, Zoning Board of Appeals, Civil Service Commission, Economic Development Corporation, and Downtown Development Authority meetings. Staff members type the agendas for the meetings and prepare notices and publications. Meeting actions are recorded in the form of minutes, indices, adjustment of directories, and updates to the Code of Ordinances. Ceremonial certificates, commendations, and testimonials are also prepared by staff.

This office is also responsible for issuance of animal licenses and the coordination of temporary, seasonal, and regular retail business licenses, right-of-way, and door-to-door solicitation permits. Madison Heights residents' vital statistics, such as birth and death certificates, are kept on file for use by individuals and the State of Michigan. The City Clerk's Department also maintains a medical loan closet to provide use of wheelchairs, crutches, canes, and walkers for residents.

The elections section is administered by the City Clerk. This section is responsible for voter registration and providing lists of registered voters upon request. Other duties include conducting federal, state, county, and City elections in accordance with the federal and state election laws, while striving to protect the rights of the voters.

City Assessor's Office

The city assessor's office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are 11,794 residential, commercial, and industrial real estate properties and 1,816 personal property accounts. The assessing department operates under the provisions of the General Property Tax Act of 1893, as amended, and also applicable local charter provisions.

The office is responsible for development of Special Assessment Districts rolls used to fund infrastructure improvements. The Assessing Department also defends all assessments before the Michigan Tax Tribunal and coordinates the activities of the Economic Development Corporation.

Personnel Department

The personnel department is responsible for the following functions: coordination of employee recruitment and selection, training, counseling, medical evaluation, discipline, transfer, grievance administration, staffing analysis and planning, labor relations, health and safety, return-to-work program, compensation administration, position control, pay and classification review, and other matters. In addition, the personnel department researches and formulates policy as directed by the city manager or initiated by the department.

Finance Department

The finance department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The finance department is responsible for all accounting, pension administration, risk management, and treasury functions. The finance department also assists in budget development, implementation, maintenance, and control. Additionally, the finance department provides support services to other departments, including being part of the management team in labor negotiations with all employee bargaining units. The finance department continues to move toward complete online data processing of financial reporting, accounting, accounts payable, budgeting, cash receipts, payroll, pension management, purchasing, tax, and utility billing and collection systems.

Department of Public Services - Custodial and Building Maintenance

The Custodial and Building Maintenance Division is responsible for maintaining City buildings, which includes preventative maintenance, repairs, and janitorial services. Custodial services are provided through an outside contractor at the main library, District Court, police station, branch library, senior citizen center, nature center, city hall, and the Department of Public Services buildings.

Police Department

The police department strives to preserve and protect life and property in Madison Heights, through its five operating bureaus. The majority of the department's staffing, equipment, and financial resources are allocated to the Road Patrol Bureau. The Road Patrol Bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The Investigative Bureau includes trained professional investigators who are responsible for researching and solving crimes and successfully prosecuting criminals.

The Crime Prevention Bureau works with businesses and homeowners to increase their awareness of the importance of security.

The Accident Investigation Team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight vehicle restrictions to protect the City's roadways.

The police department also maintains a public educational program in many of these areas through contacts with various citizens' groups and speaking engagements.

Finally, the Auxiliary Services Unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary Services consists primarily of volunteers supervised by a Police Sergeant. Volunteer groups include police reserves, crisis response team, citizens observation and surveillance team, and the police explorers, who are young people who receive training for law enforcement careers.

Fire Department

The fire department is responsible for the protection of life and property from the ravages of fire. The fire department responds to both residential and commercial/industrial fires with specialized equipment designed to meet the needs of the particular fire.

The fire department provides both first responder emergency and advance life support medical service, including transporting patients to local hospitals. In addition, the fire department is able to respond to hazardous material spills.

Staff is involved in the enforcement of State laws and City ordinances that relate to fire protection. In addition, the fire department reviews commercial/industrial buildings and multiple dwellings for code violations.

Staff is involved in arson investigations and assists in fire prevention efforts by developing educational programs.

Department of Public Services - Streets Division

The Department of Public Services - Streets Division is responsible for maintaining the 106 miles of streets within the City. The Streets Division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs, and open drain repair. The Streets Division is upgrading street signs with a high density facing for a safer, more visible sign. The Streets Division will be performing both targeted and generalized concrete repair as part of the 10-year neighborhood road improvement program that was initiated in 1997.

Department of Public Services - Solid Waste Division

The Solid Waste Division is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, park cleanup, and catch basin cleanout. The City's annual report/calendar and quarterly newsletters inform citizens of the refuse and recycling schedule. The City has established a mandatory recycling program. Recycled materials include metals, phone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings, and leaves. Educational seminars for recycling and composting are conducted for schools and businesses. At considerable savings, the City has contracted out its refuse collection (January 1997) and refuse disposal (July 1997) operations.

Department of Public Services - Senior Citizen Division

The Senior Citizen Division is responsible for hosting a wide range of programs for the City's senior citizens. The senior center provides a place for seniors to enjoy their leisure time participating in educational and recreational programs. Transportation is provided through the center for recreation, personal business appointments, and other activities. A daily lunch program, a home chore program (grass mowing and snow shoveling for financially needy seniors), and human services information and referral are also available.

Department of Public Services - Recreation Division

The Recreation Division is responsible for conducting the City's leisure and recreational programs. The Recreation Division provides instructional programs in such areas as dance, tennis, swimming, and art. The "Festivals in the Park" series continues with great success. Team sports such as basketball, softball, and volleyball are also offered. The Recreation Division staff processes all registration, preparation, and distribution of flyers, evaluation and selection of programs and instructional personnel, and coordination of volunteer coaches.

Department of Public Services - Nature Center

The Nature Center at Suarez Woods opened in October 1996 and operates with one full-time and one part-time naturalist and many volunteers. The center is open six days a week (approximately 40 hours) and offers a variety of seasonal displays, programs, walking tours, and a small gift store. The Nature Center is responsible for providing a better appreciation of nature. In doing so, interactive displays are changed seasonally. Live animals, taxidermy mounts, artwork, and special events are all a part of the experience. In addition to the inside, the 36 acres of natural preservation located in the middle of a developed community leaves the patron wanting more.

Department of Public Services - Parks Division

The Parks Division is responsible for the maintenance of all City parks. In addition, the Parks Division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The Parks Division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees, and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the Parks Division.

Library Department

The library department is a multifaceted service agency involved in meeting the community's needs for information in a variety of formats at two locations. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs, and audio cassettes.

The library department's ability to provide information is further enhanced by its membership in The Library Network (TLN). This membership allows for the electronic interloan of items from other TLN members. These items are then delivered to Madison Heights for patron pickup.

A myriad of additional services is offered by the library, such as free home delivery of library materials to the physically challenged, temporarily homebound, and senior citizens. Personal computers, with Internet access, are available for use by patrons. Liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews, and children's programming are offered year round.

Community Development Department

The Community Development Department consists of seven separate functions: Economic Development, Geographic Information Systems (GIS), Code Enforcement, Building, Planning and Zoning, Engineering, and Housing and Grant Administration; all personnel deal with developing and enhancing the quality of life in Madison Heights.

The Building Division performs inspections of new buildings, inspections of commercial buildings for business licenses, and inspections for landlord licenses. The Planning and Zoning Division provides recommendations on all matters coming before the Planning Commission, Zoning Board of Appeals, and the Downtown Development Authority. Staff also reviews proposed development to ensure compliance with the City's zoning ordinance and master plan. The Engineering Division administers, designs, and inspects City utility and road projects. It also provides engineering inspection for all private development. The GIS Division provides comprehensive mapping services to all City departments and the general public. Code Enforcement conducts inspections to determine compliance with various City codes.

The newly created Economic Development Division provides business retention and attraction resources, as well as direct support to the Downtown Development Authority and the Brownfield Redevelopment Authority.

Community Development Department - Community Improvement Division

The Community Improvement Division is a federally funded division of the Community Development Department. The Community Improvement Division is charged with the administration of the City's Community Development Block Grant and Housing Commission Funds. Block Grant funds are used for such things as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, neighborhood road improvements, and other similar projects that benefit low- and moderate-income residents. In addition, these funds provide assistance to low-income families in securing low interest and/or deferred home improvement loans. The City's Housing Commission funds are used to subsidize the rent for 280 low-income tenants.

General Administration Department

The general administration department is responsible for conducting many of the City's administrative functions. Examples of key roles include: purchasing; data processing; telephone administration; public information duties; mail processing; office of public assistance; cable television production and regulation; coordinating the distribution of office supplies; and contract printing.

Information Technology

The information technology office is responsible for supporting the City's Wide Area Network and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production, and assistance in setting the technological direction for the City.

Department of Public Services - Water and Sewer Division

The Water and Sewer Division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit Water and Sewerage department. The Water and Sewer Division handles the installation, repair, and reading of all water meters. The Water and Sewer Division does all repair work on water and sewer mains, gatewells, maintenance hole and catch basin structures; all cleaning of sewer mains, catch basins, gatewells and culverts; and all other related services. The Water and Sewer Division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Oakland County Drain Commission for the treatment of sewage that enters its facilities.

Department of Public Services - Motor Pool Division

The Motor Pool Division is responsible for maintaining all City vehicles and related equipment. The Motor Pool Division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The Motor Pool Division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The Motor Pool Division also orders gasoline and diesel fuel, and oversees the work done on all emergency backup generators.

Financial Information

Internal Control

The accounting principles and procedures currently in use by the City have been designed to enhance and coordinate internal accounting controls as well as to encourage adherence to prescribed managerial policies. The manner in which these controls are implemented reflects procedures designed to help ensure the safeguarding of assets and the reliability of accounting data to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that errors will be detected and prevented, if and when they occur. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

Budgeting Controls

The annual budget provides a basis of control over financial operations. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved budget. Activities of the General Fund, Special Revenue Funds, and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within each individual fund. These controls have assisted in the sound financial planning of the past by improving budgetary standards such as long-range programs for cyclical road, vehicle, and equipment replacement. The overall budget strategy is to address the current program obligations as efficiently as possible while also meeting the challenges of future needs for infrastructure improvements.

Other Information

Independent Audit

The State statutes and City Charter require an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been fulfilled and the report of Plante & Moran, PLLC, Certified Public Accountants, is included herein. The auditor's report on the general purpose financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are reported under separate cover.

Certification

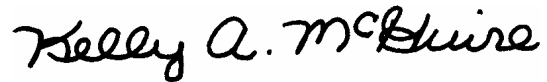
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison Heights for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

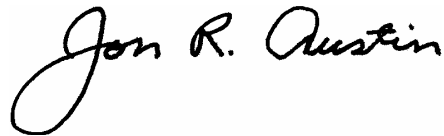
A Certificate of Achievement is valid for a period of one year only. The City of Madison Heights has received a Certificate of Achievement annually since the fiscal year ended June 30, 1992. City management believes our current report continues to conform to the Certificate of Achievement program requirements and is submitting it to GFOA to determine its eligibility for a certificate.

Acknowledgments

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the finance department and the city manager's office. We express our appreciation to all members of the departments who assisted and contributed to its preparation. We also thank the City Council for its interest and support in conducting the financial operations of the City in a responsible and progressive manner.

A handwritten signature in black ink that reads "Kelly A. McGuire". The script is fluid and cursive, with the first letters of each word being capitalized and prominent.

Kelly A. McGuire
Finance Director/Treasurer

A handwritten signature in black ink that reads "Jon R. Austin". The signature is written in a cursive style, with the first letters of each word being capitalized and prominent.

Jon R. Austin
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Madison Heights,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



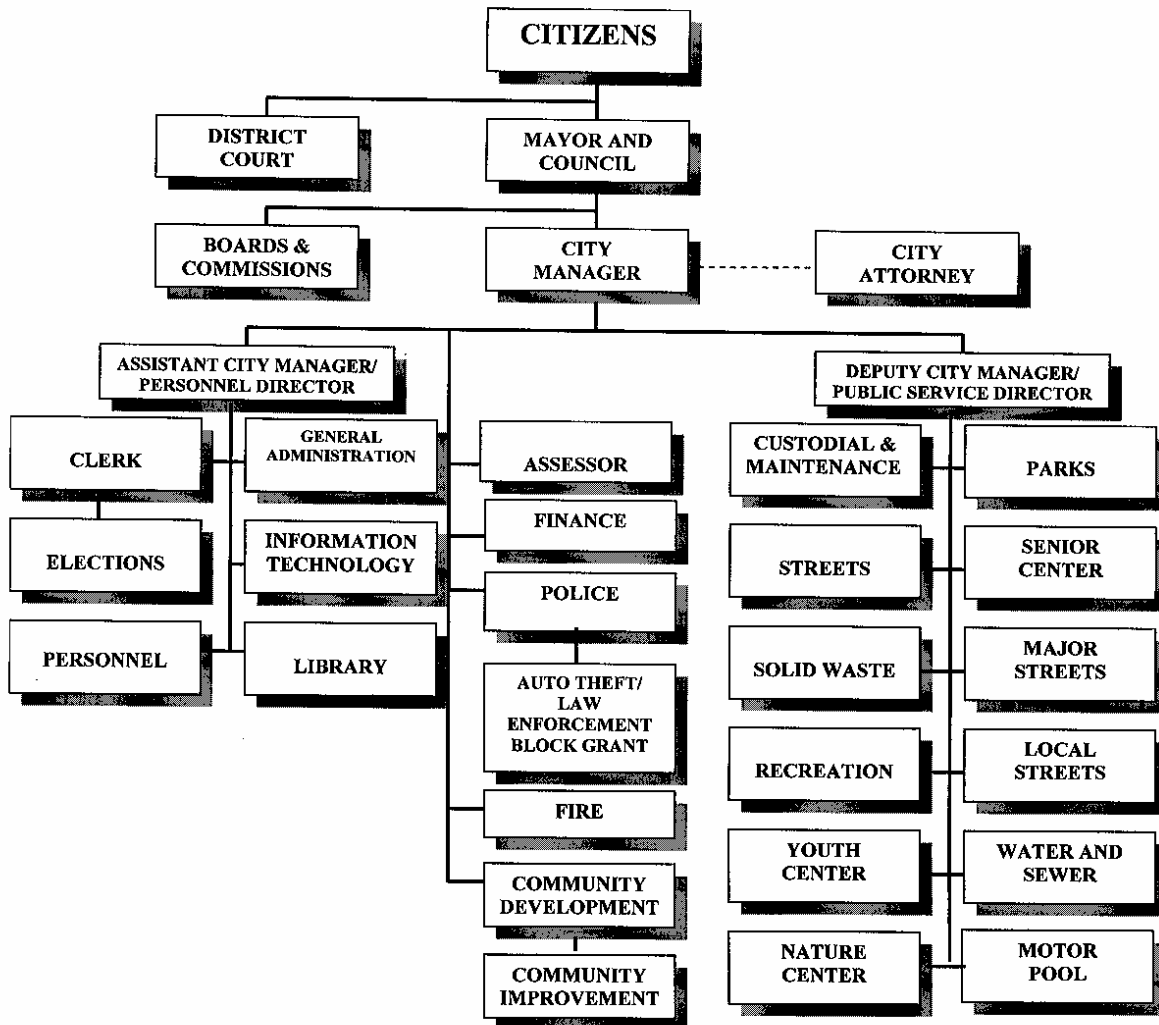
A handwritten signature in black ink, reading "William Patrick Porter".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director

CITY OF MADISON HEIGHTS ORGANIZATIONAL CHART



City of Madison Heights, Michigan

List of Principal Officials June 30, 2003

<u>Title</u>	<u>Name</u>
Mayor	Edward C. Swanson
Mayor Pro Tem	Robert J. Corbett
Council Member	Richard L. Clark
Council Member	Gary R. McGillivray
Council Member	Marilyn R. Russell
Council Member	Margene A. Scott
Council Member	Toni F. Shad
City Manager	Jon R. Austin
Deputy City Manager	Peter J. Connors
Assistant City Manager	Benjamin I. Myers
Departmental Administrators:	
City Assessor	Dwayne G. McLachlan
City Clerk	Geraldine A. Flack
Community Development	James T. Schafer
Finance Director/Treasurer	Kelly A. McGuire
Fire	Richard E. Donahue
Library	Roslyn F. Yerman
Police	Kevin M. Sagan

Financial Section



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2003 on our consideration of the City of Madison Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 15, the City has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002. In adopting this statement, the financial statements now include a management's discussion and analysis, government-wide full accrual financial statements, and reorganized fund-based statements. In addition, the governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

Plante & Moran, PLLC

September 4, 2003

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis of the City of Madison Heights' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2003:

- State-shared revenue, the General Fund's second largest revenue source, was reduced by the State of Michigan by approximately \$485,000 this year. To offset the reduction, the City maintained prior year's spending levels for supplies and contractual services as well as eliminating or postponing capital purchases. These actions resulted in a fund balance increase of only \$37,063.
- Total net assets related to the City's governmental activities increased by approximately \$2.3 million. This increase is a result of growth addition in the taxable value and budgetary expenditure restrictions. The unrestricted portion of net assets decreased by approximately \$1,023,000.
- The City issued \$5,925,000 general obligation bonds for the construction of a fire station headquarters and related projects. This project includes the cost of acquiring, constructing, furnishing, and equipping a new fire station and related training tower. Parking, site improvements, sled hill redevelopment, construction of an underground storm water detention structure, draft pit, demolition of the existing fire station, redevelopment of the Thirteen Mile Road park frontage, and rehabilitation of Station #2 are also included in the project.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of the City of Madison Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements, changed slightly from prior years, follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund-based financial statements report the City's operations in more detail than the government-wide financial statements.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Madison Heights as a Whole

The City's combined net assets increased 7.6 percent from a year ago, increasing from \$57.9 million to \$62.3 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.4 million in net assets or 5.5 percent during fiscal year 2002-2003. This increase was the result of diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property values within the City.

Net assets of business-type activities increased approximately \$2 million in net assets as well. This was primarily due to contributions of water and sewer lines by developers for Pine Ridge Estates and the continued growth in the customer base. In addition, the City received insurance proceeds; however, these funds were used to replace destroyed assets.

In a condensed format, the following table shows the comparison of net assets (in thousands of dollars) as of June 30, 2003 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2002-2003	2001-2002	2002-2003	2001-2002	2002-2003	2001-2002
Assets						
Current assets	\$ 16,618	\$ 14,043	\$ 6,494	\$ 5,564	\$ 23,112	\$ 19,607
Noncurrent assets	41,797	34,815	19,396	15,210	61,193	50,025
Total assets	58,415	48,858	25,890	20,774	84,305	69,632
Liabilities						
Current liabilities	3,617	3,004	1,160	1,105	4,777	4,109
Long-term liabilities	8,781	2,140	8,478	5,415	17,259	7,555
Total liabilities	12,398	5,144	9,638	6,520	22,036	11,664
Net Assets - Invested in capital						
assets - Net of related debt	34,567	34,005	9,784	7,874	44,351	41,879
Restricted	4,975	2,211	3,419	1,887	8,394	4,098
Unrestricted	6,475	7,498	3,049	4,493	9,524	11,991
Total net assets	<u>\$ 46,017</u>	<u>\$ 43,714</u>	<u>\$ 16,252</u>	<u>\$ 14,254</u>	<u>\$ 62,269</u>	<u>\$ 57,968</u>

Unrestricted net assets for governmental activities was \$1.3 million at June 30, 2003. These net assets are available to finance day-to-day operations as well as future growth. This represents a decrease of approximately \$1,023,000 or (13.6) percent.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2003 and June 30, 2002:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2002-2003	2001-2002	2002-2003	2001-2002	2002-2003	2001-2002
Revenue						
Program revenue:						
Charges for services	\$ 2,749	\$ 3,074	\$ 8,111	\$ 7,448	\$ 10,860	\$ 10,522
Operating grants	2,379	2,513	-	-	2,379	2,513
Capital grants and contributions	237	1,088	142	122	379	1,210
General revenues:						
Property taxes	17,338	16,755	-	-	17,338	16,755
State-shared revenues	3,694	4,178	-	-	3,694	4,178
Unrestricted investment earnings	284	403	52	86	336	489
Franchise fees	254	317	-	-	254	317
Transfers and other	1,585	1,389	1,691	30	3,276	1,419
Total revenue	28,520	29,717	9,996	7,686	38,516	37,403
Program Expenses						
General government	5,012	6,424	-	-	5,012	6,424
Public safety	12,843	11,932	-	-	12,843	11,932
Public works	3,155	3,541	-	-	3,155	3,541
Solid waste	1,816	1,869	-	-	1,816	1,869
Community development	1,134	1,126	-	-	1,134	1,126
Recreation	2,172	2,191	-	-	2,172	2,191
Water and sewer	-	-	7,998	7,361	7,998	7,361
Total program expenses	26,132	27,083	7,998	7,361	34,130	34,444
Increase in Net Assets	\$ 2,388	\$ 2,634	\$ 1,998	\$ 325	\$ 4,386	\$ 2,959

Governmental Activities

The City's governmental activities revenues decreased by approximately \$1.2 million. This was primarily attributed to reduction in State-shared revenues and interest income.

Expenses decreased by approximately \$951,000. This decrease was a result of reductions in capital purchases and timing of construction projects.

During the year, the City continued meeting the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments that were earned in the present. Recently, the City Council has directed staff to move forward with plans to pre-fund retiree health care benefits.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to all of its residents and businesses. Rate increases for fiscal 2002-2003 were less than the increase received from the City of Detroit. The City provides sewage treatment to all residents and businesses using the Southeast Oakland County Sewage Disposal System. Rate increases for sewage treatment were also below the increase in the rates charged by the Oakland County Drain Commissioner. During fiscal year 2002-2003, the water and sewer systems experienced a minimal change in the volume of water sold and sewage treated and a 1 percent increase in the number of users.

Major Funds

The analysis of the City's major funds begins in the financial section following the government-wide financial statements. The fund-based financial statements provide detailed information for the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Public Act 51 Major and Local Street Revenue and the voted debt retirement property tax millages. The City's major funds for 2002-2003 include the General Fund, the Major Street Fund, the Local Street Fund, and the Capital Projects Fire Station Fund.

The General Fund pays for the majority of the City's governmental services, the most significant being police and fire, which incurred expenditures of approximately \$12.4 million in fiscal year 2002-2003. The general operating millage levied by the City supports these two services. The Major and Local Street Funds as well as the Capital Projects Fire Station Fund are the three funds used by the City to account for most capital outlay and infrastructure expenditures. Transfers from other funds, debt issuance proceeds, and Act 51 monies support these funds.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur throughout the year. The most significant events during fiscal 2002-2003 were the decreases in the anticipated State-shared revenue, interest income, building permit revenue, engineering service revenue, and 43rd District Court fines. These revenues decreased due to the downturn in the economy or State cutbacks. To combat these revenue losses, the City took action with the mid-year budget amendment to reduce appropriations and related expenditures.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

As of June 30, 2003, the City had \$52.0 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. As a result of GASB No. 34 implementation, the City is reporting infrastructure assets, which include roads, bridges, sidewalks, and storm drains. The value of the infrastructure assets, net of depreciation, is \$19.7 million and \$18.2 million for fiscal 2002-2003 and 2001-2002, respectively (see Note 4 of the notes to the basic financial statements for additional information).

Debt reported in these financial statements relates to the construction of the above-mentioned infrastructure assets and is reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

The City's overall budgeted expenditures for fiscal year 2003-2004 increased by \$6.7 million compared to the fiscal year 2002-2003 budget. The increases are primarily the result of construction projects in the Major and Local Street Funds and the construction of a new fire station headquarters in the Capital Projects Fund.

Despite increases in other funds, reductions in State revenue sharing and interest income have resulted in the City's General Fund budget for fiscal year 2003-2004 being reduced by approximately \$200,000 as compared to the fiscal year 2002-2003 budget, with future reductions likely. In addition to these revenue losses, the City has had to contend with annual medical benefit increases of 15 percent to 20 percent and significant increases in pension fund contributions as a result of declining investment returns. These financial restraints have forced the City to reduce its overall capital outlay spending.

Although the Detroit Water and Sewage Department increased the City's cost for water purchases and sewer disposal charges by over 6 percent, the City will not be passing along this increase to its customers in fiscal year 2003-2004. Instead, the City will cover the cost of these increases through the use of approximately \$1.7 million in retained earnings of the Water and Sewer Fund.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the finance department.

City of Madison Heights, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 13,186,808	\$ 3,702,467	\$ 16,889,275	\$ 44,724
Special assessments receivable - Current	75,000	-	75,000	-
Accounts receivable (Note 3)	2,087,648	2,791,885	4,879,533	-
Due from other governmental units (Note 3)	849,234	-	849,234	261,168
Prepaid expenses and deposits	420,494	-	420,494	-
Noncurrent assets:				
Special assessments receivable - Deferred	574,223	-	574,223	-
Inventories	-	10,224	10,224	-
Restricted assets (Note 7)	5,865,852	2,686,629	8,552,481	-
Capital assets (Note 4)	<u>35,356,543</u>	<u>16,698,882</u>	<u>52,055,425</u>	<u>111,030</u>
Total assets	58,415,802	25,890,087	84,305,889	416,922
Liabilities				
Accounts payable	778,996	614,827	1,393,823	55,919
Accrued and other liabilities	1,075,504	265,236	1,340,740	6,080
Due to other governmental units	41,501	-	41,501	157,236
Due to police and fire retirement system	1,180,561	-	1,180,561	-
Deferred revenue	5,435	-	5,435	-
Current liabilities payable from restricted assets	535,562	194,500	730,062	500
Deposits	-	84,681	84,681	47,313
Noncurrent liabilities (Note 6):				
Compensated absences and other claims	2,855,944	-	2,855,944	-
Due within one year	155,000	96,284	251,284	-
Due in more than one year	<u>5,770,000</u>	<u>8,382,115</u>	<u>14,152,115</u>	<u>-</u>
Total liabilities	<u>12,398,503</u>	<u>9,637,643</u>	<u>22,036,146</u>	<u>267,048</u>
Net Assets				
Invested in capital assets - Net of related debt	34,566,833	9,863,567	44,430,400	111,030
Restricted:				
General Fund - Solid waste	91,401	-	91,401	-
Major and Local Street Fund - Construction and operations	4,842,220	-	4,842,220	-
Forfeiture Fund	41,606	-	41,606	-
Water and Sewer Fund:				
Construction	-	1,643,084	1,643,084	-
Debt service	-	849,045	849,045	-
Building replacement	-	927,471	927,471	-
Unrestricted	<u>6,475,239</u>	<u>2,969,277</u>	<u>9,444,516</u>	<u>38,844</u>
Total net assets	<u>\$ 46,017,299</u>	<u>\$ 16,252,444</u>	<u>\$ 62,269,743</u>	<u>\$ 149,874</u>

City of Madison Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government - Governmental activities:				
General government	\$ 5,011,688	\$ 1,415,685	\$ -	\$ -
Public safety	12,843,477	352,758	119,027	52,910
Public works	3,155,340	20,055	1,937,172	183,767
Solid waste and recycling	1,816,325	17,339	-	-
Community and economic development	1,134,053	662,480	268,431	-
Recreation and culture	2,171,854	280,498	53,915	-
Total governmental activities	26,132,737	2,748,815	2,378,545	236,677
Business-type activities - Water and sewer	7,997,593	8,110,724	-	141,455
Total primary government	<u>\$ 34,130,330</u>	<u>\$ 10,859,539</u>	<u>\$ 2,378,545</u>	<u>\$ 378,132</u>
Component units:				
Housing Commission	\$ 1,652,033	\$ -	\$ 1,637,037	\$ -
Downtown Development Authority	88,186	-	-	-
Total component units	<u>\$ 1,740,219</u>	<u>\$ -</u>	<u>\$ 1,637,037</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Special item - Gain on insurance recovery (Note 14)				
Transfers - Net				
Total general revenues, special item, and transfers				
Change in Net Assets				
Net Assets - July 1, 2002				
Net Assets - June 30, 2003				

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,596,003)	\$ -	\$ (3,596,003)	\$ -
(12,318,782)	-	(12,318,782)	-
(1,014,346)	-	(1,014,346)	-
(1,798,986)	-	(1,798,986)	-
(203,142)	-	(203,142)	-
(1,837,441)	-	(1,837,441)	-
(20,768,700)	-	(20,768,700)	-
-	254,586	254,586	-
(20,768,700)	254,586	(20,514,114)	-
-	-	-	(14,996)
-	-	-	(88,186)
-	-	-	(103,182)
17,337,867	-	17,337,867	85,209
3,694,187	-	3,694,187	-
284,835	52,482	337,317	824
254,296	-	254,296	-
406,159	167,419	573,578	14,996
1,303,170	1,399,748	2,702,918	-
(123,910)	123,910	-	-
23,156,604	1,743,559	24,900,163	101,029
2,387,904	1,998,145	4,386,049	(2,153)
43,629,395	14,254,299	57,883,694	152,027
\$ 46,017,299	\$ 16,252,444	\$ 62,269,743	\$ 149,874

City of Madison Heights, Michigan

	General Fund	Major Street Fund	Local Street Fund	Capital Projects - Fire Station Fund
Assets				
Cash and investments (Note 2)	\$ 6,994,023	\$ 1,028,122	\$ 3,715,894	\$ -
Due from other governmental units (Note 3)	499,212	217,259	80,716	-
Accounts receivable (Note 3)	2,082,224	184	5,240	-
Special assessments receivable	-	-	-	-
Restricted assets (Note 7)	-	195,000	-	5,670,852
Prepaid expenses and deposits	420,494	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 9,995,953</u>	<u>\$ 1,440,565</u>	<u>\$ 3,801,850</u>	<u>\$ 5,670,852</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 385,174	\$ 77,615	\$ 267,619	\$ -
Accrued and other liabilities	972,844	3,484	11,147	-
Due to other governmental units	1,171	40,330	-	-
Due to police and fire retirement system	1,180,561	-	-	-
Deferred revenue	1,601,062	-	-	-
Current liability payable from restricted assets	-	-	-	535,562
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	4,140,812	121,429	278,766	535,562
Fund Balances				
Reserved for:				
Solid waste	91,401	-	-	-
Construction	-	195,000	2,875,218	5,135,290
Prepaid expenses and deposits	420,494	-	-	-
Unreserved - Reported in (Note 13):				
General Fund	5,343,246	-	-	-
Major Street Fund	-	1,124,136	-	-
Local Street Fund	-	-	647,866	-
Unreserved - Reported in nonmajor Special Revenue Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>5,855,141</u>	<u>1,319,136</u>	<u>3,523,084</u>	<u>5,135,290</u>
Total liabilities and fund balances	<u>\$ 9,995,953</u>	<u>\$ 1,440,565</u>	<u>\$ 3,801,850</u>	<u>\$ 5,670,852</u>

**Governmental Funds
Balance Sheet
June 30, 2003**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,448,769	\$ 13,186,808
52,047	849,234
-	2,087,648
649,223	649,223
-	5,865,852
-	420,494
<u>\$ 2,150,039</u>	<u>\$ 23,059,259</u>
\$ 48,588	\$ 778,996
41,378	1,028,853
-	41,501
-	1,180,561
574,223	2,175,285
-	535,562
664,189	5,740,758
-	91,401
-	8,205,508
-	420,494
-	5,343,246
-	1,124,136
-	647,866
<u>1,485,850</u>	<u>1,485,850</u>
<u>1,485,850</u>	<u>17,318,501</u>
<u>\$ 2,150,039</u>	<u>\$ 23,059,259</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2003

Total Fund Balances for Governmental Funds \$ 17,318,501

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources are not reported in the funds 35,356,543

A portion of the special assessment receivable is expected to be collected over several years and was not available to pay for current year expenditures 574,223

A portion of the claim receivable was not available to pay for current year expenditures 1,346,297

Historically, personal property taxes, net of uncollectibles, are not recorded as revenue in the government-wide statements until they become available to pay for current year expenditures 249,330

Compensated absences are included as a liability in governmental activities (2,122,610)

Long-term liabilities and contingencies that are not due and payable in the current period are not reported in the funds (6,658,334)

Accrued interest is not reported in the funds (46,651)

Net Assets of Governmental Activities \$ 46,017,299

City of Madison Heights, Michigan

	General Fund	Major Street Fund	Local Street Fund	Capital Projects - Fire Station Fund
Revenues				
Intergovernmental	\$ 3,764,207	\$ 1,429,781	\$ 507,946	\$ -
Federal sources	39,090	-	-	-
Property taxes	17,290,976	-	-	-
Other	4,354,710	128,086	47,506	-
Total revenues	25,448,983	1,557,867	555,452	-
Expenditures				
Current:				
General government	5,415,846	-	-	-
Public safety	12,421,048	-	-	-
Community development and improvement	3,905,293	651,835	542,243	-
Cultural and recreation	2,313,572	-	-	-
Capital outlay	-	712,546	1,761,367	789,710
Debt administration	-	-	-	-
Total expenditures	24,055,759	1,364,381	2,303,610	789,710
Excess of Revenues Over (Under) Expenditures	1,393,224	193,486	(1,748,158)	(789,710)
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	-	-	-	5,925,000
Operating transfers in	23,768	-	2,163,179	-
Operating transfers out	(2,064,091)	-	-	-
Total other financing sources (uses)	(2,040,323)	-	2,163,179	5,925,000
Change in Fund Balances	(647,099)	193,486	415,021	5,135,290
Special Item - Insurance proceeds	684,162	-	-	-
Net Change in Fund Balances	37,063	193,486	415,021	5,135,290
Fund Balances - July 1, 2002	5,818,078	1,125,650	3,108,063	-
Fund Balances - June 30, 2003	<u>\$ 5,855,141</u>	<u>\$ 1,319,136</u>	<u>\$ 3,523,084</u>	<u>\$ 5,135,290</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2003

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 63,832	\$ 5,765,766
268,431	307,521
-	17,290,976
<u>364,224</u>	<u>4,894,526</u>
696,487	28,258,789
-	5,415,846
99,276	12,520,324
154,566	5,253,937
-	2,313,572
268,981	3,532,604
<u>11,393</u>	<u>11,393</u>
<u>534,216</u>	<u>29,047,676</u>
162,271	(788,887)
-	5,925,000
44,942	2,231,889
<u>(291,708)</u>	<u>(2,355,799)</u>
<u>(246,766)</u>	<u>5,801,090</u>
(84,495)	5,012,203
<u>-</u>	<u>684,162</u>
(84,495)	5,696,365
<u>1,570,345</u>	<u>11,622,136</u>
<u>\$ 1,485,850</u>	<u>\$ 17,318,501</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 5,696,365

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	4,685,852
Statement of activities records depreciation on capital assets	(2,585,328)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(752,940)
Special assessment revenues are recorded in the statement of activities when the assessed project is substantially complete; revenues are not reported in the funds until receivables are collected or collectable within 60 days of year end	(90,990)
Delinquent personal property taxes are recognized in the year of levy on the statement of activities	47,849
A portion of insurance proceeds recognized as revenue in the statement of activities was not recognized in the governmental funds since it was not available to pay for current year expenditures	1,346,297
Bond proceeds are recorded in the statement of activities, but not in the governmental funds	(5,925,000)
Interest payable is accrued and expensed on the statement of activities, but not in the governmental funds	(46,651)
Net changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when the obligations are earned in the statement of activities	12,450

Change in Net Assets of Governmental Activities \$ 2,387,904

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Net Assets June 30, 2003

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 3,702,467
Accounts receivable	2,791,885
Inventories	<u>10,224</u>

Total current assets 6,504,576

Noncurrent assets:

Restricted assets (Note 7)	2,686,629
Capital assets (Note 4)	<u>16,698,882</u>

Total noncurrent assets 19,385,511

Total assets 25,890,087

Liabilities

Current liabilities:

Accounts payable	614,827
Accrued liabilities	265,236
Cash bonds and deposits	84,681
Long-term debt - Due within one year (Note 6)	<u>96,284</u>

Total current liabilities 1,061,028

Noncurrent liabilities:

Long-term debt - Net of amount due within one year (Note 6)	8,382,115
Current liabilities payable from restricted assets (Note 7)	<u>194,500</u>

Total noncurrent liabilities 8,576,615

Total liabilities 9,637,643

Net Assets

Invested in capital assets - Net of related debt	9,863,567
Restricted	3,419,600
Unrestricted	<u>2,969,277</u>

Total net assets \$ 16,252,444

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2003

Operating Revenues

Sale of water	\$ 3,605,313
Sewage disposal	4,475,861
Other charges for services	<u>29,550</u>
Total operating revenues	8,110,724

Operating Expenses

Cost of water	1,704,750
Cost of sewage disposal	3,087,226
Water system maintenance	714,144
Water tapping and installation	47,033
Sewer system maintenance	459,863
General services building	298,796
General administration	1,145,152
Depreciation	<u>439,924</u>
Total operating expenses	<u>7,896,888</u>

Operating Income

213,836

Nonoperating Revenue (Expense)

Interest and other income	219,901
Interest expense - Net of capitalized interest	<u>(100,705)</u>

Total income before capital contributions,
operating transfer, and special item

333,032

Capital Contributions

141,455

Operating Transfer

123,910

Special Item - Gain on insurance recovery (Note 14)

1,399,748

Change in Net Assets

1,998,145

Net Assets - July 1, 2002

14,254,299

Net Assets - June 30, 2003

\$ 16,252,444

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2003

Cash Flows from Operating Activities

Receipts from customers	\$ 8,176,614
Payments to suppliers and employees	(7,383,894)
Net cash provided by operating activities	792,720

Cash Flows from Capital and Related Financing Activities

Contributions from customers	11,646
Principal and interest paid on long-term debt and related deposits with paying agent - Net of capitalized interest	(387,805)
Purchase of capital assets - Including capitalized interest	(1,595,463)
Insurance and other proceeds	1,070,819
Operating transfer	123,910
Net cash used in capital and related financing activities	(776,893)

Cash Flows from Investing Activities - Interest received on investments

52,482

Net Increase in Cash and Cash Equivalents

68,309

Cash and Cash Equivalents - Beginning of year

3,834,158

Cash and Cash Equivalents - End of year

\$ 3,902,467

Balance Sheet Classification of Cash and Cash Equivalents

Cash and investments	\$ 3,702,467
Restricted investments (Note 7)	200,000
Total cash and cash equivalents	\$ 3,902,467

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 213,836
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	439,924
Changes in assets and liabilities:	
Customer receivables	65,890
Inventory	24,069
Accounts payable	22,452
Accrued liabilities	30,079
Cash bonds and deposits	(3,530)
Net cash provided by operating activities	\$ 792,720

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2003, the Water and Sewer Fund received debt draw-downs totaling \$3,342,635 and spent \$2,686,235 (net of \$52,783 in off-setting interest earnings) for construction related to new wastewater facilities. This activity, administered by Oakland County, Michigan, is recorded in the restricted assets held at the County. Additionally, during the year, the City recorded \$129,809 in capital contributions from Oakland County in the form of an account receivable that can be used for qualified environmental improvement projects. Finally, in relation to the fire discussed in Note 14, \$927,471 of the total Water and Sewer Fund insurance claim of \$1,830,871 was not received as of June 30, 2003 and is recorded as a nonoperational account receivable as of that date.

City of Madison Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Trust Fund - Pension and Other Retirement Benefits	Agency	
	Police and Fire Retirement	Tax Collection	Escrow
Assets			
Cash and cash equivalents	\$ -	\$ 100,588	\$ 681,382
Investments:			
Corporate bonds and notes	11,837,243	-	-
U.S. government securities	4,965,602	-	-
Federal agency obligations	5,996,270	-	-
Common stocks	12,836,210	-	-
Broker cash management funds	3,814,892	-	-
Small cap mutual funds	3,940,289	-	-
Accrued interest receivable and other	344,605	-	-
Due from City General Fund	1,180,561	-	-
Total assets	44,915,672	<u>\$ 100,588</u>	<u>\$ 681,382</u>
Liabilities			
Accounts payable	142	\$ -	\$ 516
Prepaid taxes	-	100,588	-
Cash bonds and deposits	-	-	680,866
Total liabilities	142	<u>\$ 100,588</u>	<u>\$ 681,382</u>
Net Assets - Reserved for police and fire retirement		<u>\$ 44,915,530</u>	

City of Madison Heights, Michigan

Fiduciary Funds Statement of Changes in Plan Net Assets Year Ended June 30, 2003

		Trust Fund - Pension and Other Retirement Benefits
Additions		
Investment income:		
Interest and dividends	\$ 1,553,293	
Net appreciation of investment value	476,484	
Less investment expenses	<u>(228,638)</u>	
Net investment income		1,801,139
Contributions:		
Employer:		
Pension benefits	\$ 951,923	
Postretirement benefits	807,320	
Investment and administrative expenses	<u>437,778</u>	2,197,021
Employees		<u>613,140</u>
Total contributions		<u>2,810,161</u>
Total additions		4,611,300
Deductions		
Benefit payments:		
Pension	2,793,693	
Withdrawals	226,629	
Postretirement medical benefits	<u>807,320</u>	3,827,642
Administrative expenses		<u>209,140</u>
Total deductions		<u>4,036,782</u>
Net Increase		574,518
Net Assets - Reserved for police and fire retirement		
Beginning of year		<u>44,341,012</u>
End of year		<u><u>\$ 44,915,530</u></u>

City of Madison Heights, Michigan

Component Units Statement of Net Assets June 30, 2003

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Totals
Assets				
Cash and investments (Note 2)	\$ -	\$ 2,353	\$ 42,371	\$ 44,724
Due from other governmental unit	261,168	-	-	261,168
Capital assets (Note 4)	-	-	111,030	111,030
Total assets	261,168	2,353	153,401	416,922
Liabilities				
Accounts payable	50,039	-	5,880	55,919
Accrued liabilities	6,080	-	-	6,080
Due to other governmental unit	157,236	-	-	157,236
Deferred revenue	500	-	-	500
Deposits	47,313	-	-	47,313
Total liabilities	261,168	-	5,880	267,048
Net Assets				
Investment in capital assets	-	-	111,030	111,030
Unrestricted	-	2,353	36,491	38,844
Total net assets	\$ -	\$ 2,353	\$ 147,521	\$ 149,874

City of Madison Heights, Michigan

		Program Revenues	
		Operating	Capital Grants
	Charges for	Grants and	and
Expenses	Services	Contributions	Contributions
Housing Commission	\$ 1,652,033	\$ -	\$ 1,637,037
Downtown Development Authority	88,186	-	-
Total governmental activities	<u>\$ 1,740,219</u>	<u>\$ -</u>	<u>\$ 1,637,037</u>

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2002

Net Assets - June 30, 2003

**Component Units
Statement of Activities
Year Ended June 30, 2003**

Net (Expense) Revenues and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ (14,996)	\$ -	\$ -	\$ (14,996)
-	-	(88,186)	(88,186)
(14,996)	-	(88,186)	(103,182)
-	-	85,209	85,209
-	-	824	824
14,996	-	-	14,996
14,996	-	86,033	101,029
-	-	(2,153)	(2,153)
-	2,353	149,674	152,027
<u>\$ -</u>	<u>\$ 2,353</u>	<u>\$ 147,521</u>	<u>\$ 149,874</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Madison Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

Discretely Presented Component Units

Housing Commission

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the Department of Housing and Urban Development. The Housing Commission serves over 200 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council.

Economic Development Corporation

The Economic Development Corporation (the "Corporation") is organized pursuant to Public Act 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the issuance of limited general obligation revenue bonds by the Corporation. The bonds are payable solely from the net revenue derived from the respective projects and are not an obligation of the Corporation. The Corporation's governing body consists of five individuals selected by the City Council. In addition, the Corporation's budget is subject to approval by the City Council. There was no activity in the current year.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Downtown Development Authority

The Downtown Development Authority (the “DDA”) was established to correct and prevent stagnation and deterioration within the south end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to Ten Mile Road and Eleven Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA’s goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA’s governing body, which consists of the mayor and 12 individuals, is selected by the City Council. In addition, the DDA’s budget is subject to approval by the City Council.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the “Authority”) was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority’s governing body, which consists of 13 individuals, is comprised of the Downtown Development Authority’s board members. Currently, the Authority is in the preliminary stages of development and activities are non-financial in nature. Additionally, the Authority’s budget, once adopted, will be subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb Counties.

Local Streets Fund - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds (including transfer from the City's General Fund of the proceeds of a special 2 mill property tax levy for neighborhood road improvements), and interest income.

Capital Projects Fund - Fire Station - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters.

The City also reports its major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following nonmajor governmental and Agency Funds:

Curtail Auto Theft Fund - The Curtail Auto Theft Fund administers grant funds from the State of Michigan for the purpose of a multi-jurisdictional anti-theft unit in the Police Department. The City provides one police officer and the training that is needed to fulfill the duties.

Community Improvement Fund Program - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's Block Grant program. Block Grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low interest and/or deferred home improvement loans.

Forfeiture Fund - The Forfeiture Fund is used to account for revenues generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

Revolving Fund - The Revolving Fund is used to record revenues and related project expenditures for special assessment districts that are not funded by bond issues.

Court Expansion Fund - The Court Expansion Fund is used to account for various capital improvements being made at the court. This fund was closed at June 30, 2003.

Drains Debt Service Fund - The Drains Debt Service Fund accounted for principal and interest payments on Chapter 20 intra-county drain bonds. Revenues to this fund were generated by ad valorem property taxes. The bonds were paid in full in the prior fiscal year. During the current year, the City transferred the remaining fund balance to the Water and Sewer Fund.

Fire Station Debt Service Fund - The Fire Station Debt Service Fund accounts for the principal and interest payments on bonds for the new fire station headquarters. Revenues to this fund will be generated by an ad valorem property tax.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Police Facility Debt Service Fund - The Police Facility Debt Service Fund accounted for principal and interest payments on bonds for the new police facility. Revenues were generated by ad valorem property taxes. The bonds were paid in full in a prior period. During the current year, the City transferred the remaining fund balance to the General Fund.

Police and Fire Retirement Fund - The Police and Fire Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

Tax Collection Fund - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

Escrow Fund - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund relate to charges to customers for water sales and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues.

The portion intended to recover the cost of the infrastructure is recognized as contributed capital. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the Police and Fire Retirement System) and the component units of the City are allocated to each fund and component unit using a weighted average of the invested principal balances.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both government-wide and fund financial statements.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Assets of the Major Street Fund have been restricted for future construction pursuant to a legal agreement and fund balance in the corresponding amount of \$195,000 has been reserved.

The assets of the Capital Projects Fund have been restricted for construction by the bond ordinance and fund balance has been reserved for the future construction costs related to the fire station.

Assets of the Water and Sewer Fund related to revenue bond debt service have been restricted by the bond ordinance. Assets held at the County related to general obligation debt service have been restricted by the County actions and represent an account receivable of the Water and Sewer Fund. The other assets held at the County represent unspent bond proceeds held by the County for future construction. Net assets of the Water and Sewer Fund have been restricted for the \$200,000 revenue bond reserve and the \$649,045 County account receivable and the \$1,643,084 held by the County for future construction. Additionally, the Water and Sewer Fund has restricted the remaining \$927,471 insurance claim receivable at June 30, 2003 that will be paid directly to the contractor restoring the damaged building (see Note 14).

Capital Assets - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Building and land improvements	50 years
Computer and other equipment	5-10 years
Furniture and fixtures	5-10 years
Vehicles	5 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Infrastructure assets are depreciated using the straight-line method over the following useful lives:

New construction and reconstruction	25 years
Resurfacing	15 years
Intersection improvements	15 years
Bridge repairs	50 years
Sidewalks	15 years
Utility system	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are generally reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and commercial paper of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 13,186,808	\$ 3,702,467	\$ 781,970	\$ 17,671,245	\$ 44,724
Restricted assets	<u>5,865,852</u>	<u>200,000</u>	<u>-</u>	<u>6,065,852</u>	<u>-</u>
Total	<u>\$ 19,052,660</u>	<u>\$ 3,902,467</u>	<u>\$ 781,970</u>	<u>\$ 23,737,097</u>	<u>\$ 44,724</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

The City's deposits and investments at June 30, 2003 totaled \$67,127,603, of which \$22,955,127 is included on the primary government statement of net assets (\$16,889,275 under the classification of "cash and investments" and \$6,065,852 under the classification of "restricted assets") (see Note 7). The remaining \$44,172,476 of deposits and investments is included in the fiduciary funds statement of net assets under the classification of "cash and investments." These amounts are classified by Governmental Accounting Standards Board Statement No. 3 into the following categories:

	City		
	Primary		
	Government	Fiduciary	Component
	Funds	Funds	Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 17,330,421	\$ 781,970	\$ 44,724
Investments in securities, mutual funds, and similar vehicles	5,612,000	-	-
Petty cash or cash on hand	12,706	-	-
Total	<u>\$ 22,955,127</u>	<u>\$ 781,970</u>	<u>\$ 44,724</u>

Deposits

The above deposits, including short-term certificates of deposit, were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or deposits and transfers in transit) at \$18,949,584. Of that amount, up to \$500,000 was covered by federal depository insurance and approximately \$19,449,000 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

Investments

The Pension Trust Fund is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$100 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

	Reported Amount (Fair Value)
<u>Police and Fire Retirement Fund</u>	
Category 2 investments:	
Corporate bonds and notes	\$ 11,837,243
U.S. government securities	4,965,602
Federal agency obligations	5,996,270
Common stocks	<u>12,836,210</u>
Subtotal	35,635,325
Investments not subject to categorization:	
Broker cash management funds	3,814,892
Small cap mutual funds	<u>3,940,289</u>
Total Police and Fire Retirement Fund	43,390,506
Other Funds - Bank investment pool	<u>5,612,000</u>
Total City investments	<u><u>\$ 49,002,506</u></u>

Mutual funds, cash management funds, and pooled accounts are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pool is regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. Except for the bank investment pool, the City's investments are held by the Pension Fund.

Included in the Pension Fund's investments at June 30, 2003 are the following:

- Approximately \$500,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

- Asset-backed securities of approximately \$2,108,000 and commercial mortgage-backed securities of approximately \$1,858,000. These securities are generally backed by mortgages, credit card, or other receivables. These obligations typically include credit enhancements in the form of over-collateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these “pay through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Component Units

The cash and investments of the City’s component units consist of bank deposits of \$44,724 at June 30, 2003. The deposits are administered by the City. The federal depository insurance pertains to all of the above deposits of the City; hence, the specific coverage pertaining to the component units’ deposits, if any, is not determinable.

Note 3 - Receivables

Receivables as of year end for the City’s individual major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Nonmajor and Other Funds	Total
Receivables:					
Accounts	\$ 2,082,224	\$ 184	\$ 5,240	\$ -	\$ 2,087,648
Intergovernmental	<u>499,212</u>	<u>217,259</u>	<u>80,716</u>	<u>52,047</u>	<u>849,234</u>
Net receivables	<u>\$ 2,581,436</u>	<u>\$ 217,443</u>	<u>\$ 85,956</u>	<u>\$ 52,047</u>	<u>\$ 2,936,882</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Personal property taxes	\$ 249,330	\$ -
Special assessments	574,223	-
Insurance proceeds	1,346,297	-
Grant revenue	-	5,435
Total	<u>\$ 2,169,850</u>	<u>\$ 5,435</u>

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,189,153	\$ -	\$ -	\$ 2,189,153
Construction in progress	-	789,710	-	789,710
Subtotal	2,189,153	789,710	-	2,978,863
Capital assets being depreciated:				
Infrastructure:				
Streets and bridges	23,888,315	2,452,743	-	26,341,058
Sidewalks	1,549,041	199,668	-	1,748,709
Buildings and improvements	11,030,541	416,820	-	11,447,361
Land improvements	1,529,987	60,861	-	1,590,848
Machinery and equipment	2,023,227	56,194	144,042	1,935,379
Furniture and fixtures	420,233	5,933	12,516	413,650
Vehicles	5,190,172	606,932	1,574,909	4,222,195
Office equipment	3,074,880	96,989	171,249	3,000,620
Subtotal	48,706,396	3,896,140	1,902,716	50,699,820
Accumulated depreciation	(16,886,591)	(2,585,328)	(1,149,779)	(18,322,140)
Net capital assets being depreciated	<u>31,819,805</u>	<u>1,310,812</u>	<u>752,937</u>	<u>32,377,680</u>
Net capital assets	<u>\$ 34,008,958</u>	<u>\$ 2,100,522</u>	<u>\$ 752,937</u>	<u>\$ 35,356,543</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets (Continued)

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Business-type activities (Water and Sewer Fund):				
Capital assets not being depreciated:				
Land	\$ 164,413	\$ -	\$ -	\$ 164,413
Construction in progress	4,252,764	2,801,085	2,296,187	4,757,662
Subtotal	4,417,177	2,801,085	2,296,187	4,922,075
Capital assets being depreciated:				
Utility systems	15,789,726	528,050	-	16,317,776
Kuhn drain - Segment I	-	2,296,187	-	2,296,187
Buildings and improvements	1,617,550	884,750	1,312,081	1,190,219
Machinery and equipment	1,995,889	67,813	-	2,063,702
Subtotal	19,403,165	3,776,800	1,312,081	21,867,884
Accumulated depreciation:				
Utility systems	7,903,465	268,062	-	8,171,527
Buildings and improvements	1,041,741	23,117	880,958	183,900
Machinery and equipment	1,586,905	148,745	-	1,735,650
Subtotal	10,532,111	439,924	880,958	10,091,077
Net capital assets being depreciated	8,871,054	3,336,876	431,123	11,776,807
Net capital assets	<u>\$ 13,288,231</u>	<u>\$ 6,137,961</u>	<u>\$ 2,727,310</u>	<u>\$ 16,698,882</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 430,126
Public safety	693,240
Public works	1,207,082
Community development	53,923
Recreation	49,414
Refuse	151,543
Total governmental activities	<u>\$ 2,585,328</u>
Business-type activities - Water and sewer	<u>\$ 439,924</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets (Continued)

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements in the amount of \$111,030 net of accumulated depreciation of \$6,205, as of June 30, 2003. Depreciation expense for the current year was \$2,110.

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2003, the City did not have any interfund receivables or payables other than the \$1,180,561 payable from the General Fund to the Police and Fire Retirement Fund.

Interfund transfers reported in the fund statements are as follows:

	Transfers Out				
	Other Governmental Funds				Total
	General Fund	Police Facility	Community Improvement	Drain	
Transfers in:					
General Fund	\$ -	\$ 23,768	\$ -	\$ -	\$ 23,768
Local Street Fund	2,019,149	-	144,030	-	2,163,179
Water and Sewer Fund	-	-	-	123,910	123,910
Other governmental funds:					
Capital Improvement Fund	18,998	-	-	-	18,998
Curtail Auto Theft Fund	25,944	-	-	-	25,944
Total	<u>\$ 2,064,091</u>	<u>\$ 23,768</u>	<u>\$ 144,030</u>	<u>\$ 123,910</u>	<u>\$ 2,355,799</u>

The transfers from the General Fund to the Local Street Fund represents the transfer of property taxes collected for a special street millage. The transfers from the General Fund to the Capital Improvement Fund and the Curtail Auto Theft Fund represent the transfer of unrestricted resources to finance those programs in accordance with budgetary authorizations. The transfer from the Community Improvement Fund to the Local Street Fund was to transfer monies accumulated from that fund for projects to improve local streets in the community. The transfer from the Drain Fund to the Water and Sewer Fund was to return funds remaining after the full satisfaction of all debt service to the fund responsible for maintaining the drains.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Governmental activities:							
General obligations:							
Vested employee benefits	-	-	\$ 1,890,380	\$ 232,230	\$ -	\$ 2,122,610	\$ -
Reserve for general liability insurance claims	-	-	978,014	-	244,680	733,334	-
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station	2% - 3.875%	2021	-	5,925,000	-	5,925,000	155,000
Total governmental activities			<u>\$ 2,868,394</u>	<u>\$ 6,157,230</u>	<u>\$ 244,680</u>	<u>\$ 8,780,944</u>	<u>\$ 155,000</u>
Business-type activities:							
Water and Sewer Revenue Bonds:							
Amount of issue - \$1,500,000							
For the purpose of financing water and sewer improvements	5%	2005	\$ 555,000	\$ -	\$ 175,000	\$ 380,000	\$ 185,000
General obligations (related to the Oakland County Drainage District project discussed below):							
Series 2000A - Net of \$56,721 amounts not drawn down as of June 30, 2003 - Amount of issue - \$1,881,478	2.5%	2022	1,824,757	-	73,660	1,751,097	75,238
Series 2000B - Amount of issue - \$691,348	4.75%-5.375%	2022	691,348	-	21,046	670,302	21,046
Series 2000C - Net of \$4,159,922 not drawn down as of June 30, 2003 - Amount of issue - \$8,649,748	2.5%	2024	1,147,191	3,342,635	-	4,489,826	-
Series 2000D - Amount of issue - \$333,573	2.5%	2024	333,573	-	-	333,573	-
Series 2000E - Amount of issue - \$1,038,601	4.0%-5.25%	2024	1,038,601	-	-	1,038,601	-
Total business-type activities			<u>\$ 5,590,470</u>	<u>\$ 3,342,635</u>	<u>\$ 269,706</u>	<u>\$ 8,663,399</u>	<u>281,284</u>
Current liabilities payable from restricted assets							(185,000)
Net amount due within one year							<u>\$ 96,284</u>

The five general obligations recorded in the Enterprise Fund represent the City's obligations to service a portion, approximating 10.5 percent, of three bond issues and two State Revolving Fund loans related to the sewer construction project discussed in Note 11.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

The obligations were issued by the Oakland County Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Enterprise (Water and Sewer) Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenues of this fund.

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies, employees earn sick, vacation, and longevity time based on time of service with the City.

The reserve for general liability insurance claims is discussed in Note 8.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2003 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Business-type Activities (Water and Sewer Fund)			Governmental-type Activities		
	Principal*	Interest*	Total	Principal	Interest	Total
2004	\$ 281,284	\$ 369,357	\$ 650,641	\$ 155,000	\$ 281,438	\$ 436,438
2005	684,837	356,977	1,041,814	165,000	274,075	439,075
2006	500,360	338,771	839,131	185,000	266,238	451,238
2007	514,040	325,140	839,180	195,000	257,450	452,450
2008	527,719	310,997	838,716	210,000	248,188	458,188
2009-2013	2,859,047	1,326,976	4,186,023	1,240,000	1,079,678	2,319,678
2014-2018	3,280,487	901,169	4,181,656	1,630,000	752,400	2,382,400
2019-2023	3,594,064	398,856	3,992,920	2,145,000	316,350	2,461,350
2024	638,204	18,039	656,243	-	-	-
Total	<u>\$ 12,880,042</u>	<u>\$ 4,346,282</u>	<u>\$ 17,226,324</u>	<u>\$ 5,925,000</u>	<u>\$ 3,475,817</u>	<u>\$ 9,400,817</u>

* The business-type general obligations related to the State Revolving Fund loans accrue interest only on the portion of the loans drawn down to date. The principal and interest components related to these instruments in the above maturity schedule assume that the \$4,216,643 un-drawn portions of the obligations are drawn on July 1, 2003.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2003 of approximately \$216,000 (of which approximately \$115,000, net of off-setting interest income, was capitalized in the Water and Sewer Fund.)

No Commitment Debt

Excluded from the governmental activities obligations are revenue bonds of the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenues derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of June 30, 2003, there were four series of such bonds outstanding. The aggregate original issue amount of these bonds was \$9,590,000. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 7 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Funds		Enterprise Fund - Water and Sewer				
	Special Revenue Fund - Major Streets	Capital Projects Fund - Fire Station	Revenue Bond and Interest Redemption	Revenue Bond Reserve	Construction	General Obligation Debt Service	Total
Cash and investments	\$ 195,000	\$ 5,670,852	\$ -	\$ 200,000	\$ -	\$ -	\$ 6,065,852
Deposit with paying agent	-	-	194,500	-	-	-	194,500
Assets held at the County	-	-	-	-	1,643,084	649,045	2,292,129
Total assets restricted	195,000	5,670,852	194,500	200,000	1,643,084	649,045	8,552,481
Less current liabilities payable from restricted assets:							
Accrued interest	-	-	9,500	-	-	-	9,500
Current portion of long-term debt	-	-	185,000	-	-	-	185,000
Accounts payable	-	535,562	-	-	-	-	535,562
Total current liabilities payable from restricted assets	-	535,562	194,500	-	-	-	730,062
Net assets restricted	\$ 195,000	\$ 5,135,290	\$ -	\$ 200,000	\$ 1,643,084	\$ 649,045	\$ 7,822,419

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental, optical, and life insurance claims, participates in the Michigan Municipal League risk pool for workers' compensation claims, and participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$411,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net assets. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that the Authority previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability for the past two fiscal years were as follows:

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Risk Management (Continued)

	2003	2002
Estimated liability - Beginning of year	\$ 978,014	\$ 246,121
Estimated claims incurred, including reinsurance premiums and changes in estimates	4,743,130	1,382,275
Claim and reinsurance premium payments and reinsurance recoveries	<u>(4,987,810)</u>	<u>(650,382)</u>
Estimated liability - End of year	<u>\$ 733,334</u>	<u>\$ 978,014</u>

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administrated by the City of Madison Heights Police and Fire Employees' Retirement System; this plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2001, the date of the most recent actuarial valuation, membership consisted of 101 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 93 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Pension Plan and Postemployment Benefits (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 8.93 percent of gross wages for firefighters, 10.53 percent for police command through November 30, 2002 and 8.00 percent effective December 1, 2002, 9.20 percent for police, and 11.94 percent for department heads. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2003, the City's General Fund contributed, and the Police and Fire Retirement expensed, \$437,777 related to investment and administrative expenses.

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost was \$951,923, excluding contributions for postretirement benefits and administrative expenses, and exclusive of employee contributions of \$613,140. The annual required contribution was determined as part of an actuarial valuation at June 30, 2001, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. As of June 30, 2002, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized over a closed 13-year period.

Three-year trend information is as follows:

	Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 850,458	\$ 845,881	\$ 951,923
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2003, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,862,862
Reserve for retired benefit payments	31,321,693

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Pension Plan and Postemployment Benefits (Continued)

Postemployment Health Care Plan

Effective July 1, 1988, the Police and Fire Retirement System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2003, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$807,320. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees. The City's designation of \$59,633 of General Fund fund balance for retirees' health benefits relates to non-police and fire retirees (see Note 13).

Michigan Municipal Employees' Retirement System

Plan Description - The City of Madison Heights participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0.0 percent to 3.04 percent of gross wages.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Pension Plan and Postemployment Benefits (Continued)

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost of \$372,744 for the plan, exclusive of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization period is 30 years.

Three-year trend information is as follows:

	Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 478,189	\$ 306,017	\$ 372,744
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Supplementary Information

The required supplementary information (see table of contents) presented directly following the notes to the financial statements contained in the combining, individual fund, and account group statements and schedules section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Postemployment Benefits

The City provides health care benefits to retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 96 retirees are eligible. Benefits of retirees other than police and fire retirees are paid and expensed by the General Fund and totaled \$345,116 for the year ended June 30, 2003. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fund utilizing funds contributed by the General Fund for this purpose.

During the year ended June 30, 2003, the Police and Fire Retirement Fund expensed \$807,320 for these benefits (see Note 9).

Note 11 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) agreed to a new National Pollutant Discharge Elimination Systems (NPDES) permit, which resulted in the settlement of a contested case hearing involving the member communities between the Michigan Department of Environmental Quality, Oakland County, Macomb County, the City of Detroit, and the SOCSDS communities. The issuance of the new NPDES permit requires the SOCSDS member communities, as co-permittees, to undertake improvements to the Twelve Towns Retention Facility by December 31, 2005 to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$127 million, with the City's estimated share approximating \$13 million. The SOCSDS plans to finance the project by issuing debt, including low-interest (2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the SOCSDS communities have so far obtained approximately \$4.3 million in federal grants for the project and intend to pursue additional grant funding to further subsidize the improvements.

As of June 30, 2003, the SOCSDS had obtained aggregate financing of approximately \$119,690,000 (of which approximately \$79,620,000 had been received or drawn down) and had incurred approximately \$66,500,000 of costs related to the project. Included in the City's Water and Sewer Fund financial statement at June 30, 2003 was approximately \$7,054,000 of system improvements and construction in progress, \$1,643,000 of assets held at the County, and \$8,283,000 of general obligations payable representing the major components of the City's interest in the project's activity at that date.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 11 - Commitments (Continued)

Building Construction - At June 30, 2003, the City has an active construction project underway to construct a fire station headquarters that is being funded by an Unlimited Tax (general obligation) bond issue. At year end, project expenditures to date were \$789,710 and the remaining commitment to contractors is approximately \$5,000,000.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2002		\$ (566,479)
Current year building permit revenue		565,398
Current year related expenses:		
Direct costs	\$ 360,683	
Estimated indirect costs	<u>303,350</u>	
Total construction code expenditures		<u>664,033</u>
Cumulative shortfall - June 30, 2003		<u><u>\$ (665,114)</u></u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 13 - Designated Fund Balances

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

Designated for	Funds			
	General	Major Street	Local Street	Nonmajor
Retiree health benefits	\$ 39,140	\$ -	\$ -	\$ -
Vested employee benefits	2,122,610	-	-	-
Subsequent years' expenditures	448,593	872,855	14,000	1,024,604
Retained insurance risks	733,334	-	-	-
Vehicle replacement	1,451,205	-	-	-
Capital improvement	100,000	-	-	-
Insurance claim receivable	448,364	-	-	-
Total designated	5,343,246	872,855	14,000	1,024,604
Total undesignated	-	251,281	633,866	461,246
Total unreserved	<u>\$ 5,343,246</u>	<u>\$ 1,124,136</u>	<u>\$ 647,866</u>	<u>\$ 1,485,850</u>

Note 14 - Special Item Related to Gain on Insurance Recovery

During the year, a fire occurred at a building that is an asset of the Water and Sewer Fund, extensively damaging the structure. Also damaged or destroyed in the fire were a significant number of vehicles and a large amount of tools, supplies, furniture, and equipment. Other than the building itself, virtually all of the lost assets were the property of the governmental funds.

In its statement of activities for the year ended June 30, 2003, the City has recorded a total insurance claim related to this event of \$3,861,330, \$2,030,459 in governmental activities and \$1,830,871 in business-type activities (related to the Water and Sewer Fund). The insurance claim is to restore the building, recover the insured value of impaired assets (generally at fair value as opposed to original or replacement cost), and recover other costs incident to the event, consistent with the terms of the City's insurance coverage.

The City wrote off the net carrying value (historic cost less accumulated depreciation) of the destroyed assets that had previously been capitalized. The excess of insurance proceeds over the amounts written off, aggregating \$2,702,918, is reported in the statement of activities for the year ended June 30, 2003 under the caption special item - gain on insurance recovery. The City's General Fund has deferred recognition of \$1,346,297 of the insurance claim revenue, and reduced the amount of the related gain, in the statement of revenues, expenditures, and changes in fund balances for the year ended June 30, 2003 for that portion of the general government claim that was not received or otherwise deemed available at June 30, 2003.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 14 - Special Item Related to Gain on Insurance Recovery (Continued)

The City intends to use the insurance proceeds to restore and replace the assets lost in the fire. These acquisitions, when made, will be capitalized consistent with the City's established policies.

In the statement of net assets at June 30, 2003, the Water and Sewer Fund has presented the remaining \$927,471 insurance claim receivable as a restricted asset since the insurance company is making direct payments to a third party to restore the building.

Note 15 - Accounting and Reporting Change

GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure effective July 1, 2002. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets with a historical cost of approximately \$25,458,000 at June 30, 2002 that would previously have been reported in the General Fixed Assets Account Group
- The governmental activities column includes bonds and other long-term obligations, which totaled \$2,868,394 at June 30, 2002 and which were previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 4,221,499	\$ 3,840,509	\$ 3,803,297	\$ (37,212)
Property taxes	17,374,820	17,374,820	17,290,976	(83,844)
Transfers in	23,768	23,768	23,768	-
Gain on insurance recovery	-	2,115,000	684,162	(1,430,838)
Other	5,209,577	4,770,572	4,354,710	(415,862)
Total revenues	26,829,664	28,124,669	26,156,913	(1,967,756)
Expenditures - Current				
General government	5,519,236	5,475,846	5,415,846	(60,000)
Public safety	12,099,144	12,328,245	12,421,048	92,803
Community development and improvement	6,498,430	5,008,860	3,905,293	(1,103,567)
Culture and recreation	2,749,086	2,445,656	2,313,572	(132,084)
Transfers out	2,035,543	2,035,543	2,064,091	28,548
Total expenditures	28,901,439	27,294,150	26,119,850	(1,174,300)
Excess of Revenues Over (Under) Expenditures	(2,071,775)	830,519	37,063	(793,456)
Fund Balance - July 1, 2002	5,818,078	5,818,078	5,818,078	-
Fund Balance - June 30, 2003	\$ 3,746,303	\$ 6,648,597	\$ 5,855,141	\$ (793,456)

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 1,311,203	\$ 1,311,203	\$ 1,429,781	\$ 118,578
Other	55,000	75,600	128,086	52,486
Total revenues	1,366,203	1,386,803	1,557,867	171,064
Expenditures				
Current - Community development and improvement	709,253	730,512	651,835	(78,677)
Capital outlay	836,000	828,075	712,546	(115,529)
Transfers out	293,000	-	-	-
Total expenditures	1,838,253	1,558,587	1,364,381	(194,206)
Excess of Revenues Over (Under) Expenditures	(472,050)	(171,784)	193,486	365,270
Fund Balance - July 1, 2002	1,125,650	1,125,650	1,125,650	-
Fund Balance - June 30, 2003	\$ 653,600	\$ 953,866	\$ 1,319,136	\$ 365,270

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Street Fund June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 467,631	\$ 467,631	\$ 507,946	\$ 40,315
Transfers in	2,391,649	2,158,649	2,163,179	4,530
Other	50,000	20,000	47,506	27,506
Total revenues	2,909,280	2,646,280	2,718,631	72,351
Expenditures				
Current - Community development and improvement	627,056	634,752	542,243	(92,509)
Capital outlay	1,920,000	2,114,786	1,761,367	(353,419)
Total expenditures	2,547,056	2,749,538	2,303,610	(445,928)
Excess of Revenues Over (Under) Expenditures	362,224	(103,258)	415,021	518,279
Fund Balance - July 1, 2002	3,108,063	3,108,063	3,108,063	-
Fund Balance - June 30, 2003	<u>\$ 3,470,287</u>	<u>\$ 3,004,805</u>	<u>\$ 3,523,084</u>	<u>\$ 518,279</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Fire Station Fund June 30, 2003

	Original/Final Budget	Actual	Variance With Original Budget
Revenues - Bond proceeds	\$ 5,925,000	\$ 5,925,000	\$ -
Expenditures - Capital outlay	<u>774,511</u>	<u>789,710</u>	<u>15,199</u>
Excess of Revenues Over Expenditures	5,150,489	5,135,290	(15,199)
Fund Balance - July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2003	<u>\$ 5,150,489</u>	<u>\$ 5,135,290</u>	<u>\$ (15,199)</u>

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2003

The schedule of funding progress is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
Michigan Municipal Employees' Retirement System (MMERS)						
12/31/00	\$ 21.38	\$ 21.60	\$ 0.22	\$ 5.09	4.3	99.0
12/31/01	22.39	22.94	0.55	5.30	10.4	97.6
12/31/02	22.30	23.83	1.53	5.30	28.9	93.6
Police and Fire Retirement System						
6/30/97	\$ 38.54	\$ 38.44	\$ (0.10)	\$ 5.27	-	100.3
6/30/98	41.91	40.09	(1.82)	5.27	-	104.5
6/30/99	45.29	44.42	(0.87)	5.80	-	102.0
6/30/00	47.69	46.24	(1.45)	5.59	-	103.1
6/30/01	49.00	48.14	(0.86)	5.80	-	101.8
6/30/02	49.20	50.63	1.43	6.44	22.2	97.2

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2003

The schedule of employer contributions is as follows:

Michigan Municipal Employees' Retirement System (MMERS)

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for MMERS	Percentage Contributed
06/30/01	12/31/00	\$ 478,189	100.0
06/30/02	12/31/01	306,017	100.0
06/30/03	12/31/02	372,744	100.0

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
06/30/98	06/30/98	\$ 948,377	100.0
06/30/99	06/30/99	988,091	100.0
06/30/00	06/30/00	909,016	100.0
06/30/01	06/30/01	850,458	100.0
06/30/02	06/30/02	845,881	100.0
06/30/03	06/30/03	951,923	100.0

*Excludes contributions made for retiree health care and other expenses

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Police and Fire Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	13 years closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7%
Projected salary increases**	5.5% - 8.5%

**Includes inflation at cost of living adjustments

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2003

Note - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget by activity, which is in accordance with the State's legal requirements. An activity is the level that aggregates budgetary line items by departmental responsibility. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information budgetary comparison schedules for the major governmental funds is a summarization of the activity basis budget. Copies of the activity basis budgets for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any functional activity must be approved by the City Council.

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2003

Note - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2003 has not been calculated.

The budget has been prepared in accordance with generally accepted accounting principles with the exception that bond proceeds, the special item (insurance proceeds), and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - The City budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

During the current year, the City incurred general government expenditures that were in excess of the amounts budgeted on an activity basis, as follows:

	Budget	Actual
General Fund		
Public safety:		
Police	\$ 7,913,472	\$ 8,000,914
Fire	4,370,456	4,378,819
Transfers out to Local Road Fund	1,990,601	2,019,149
Fire Station Fund - Capital outlay	774,511	789,710

The variances in the General Fund - public safety - police and fire budgets were due to greater than anticipated health care costs and overtime.

The variance in the General Fund - transfers out to Local Road Fund was due to actual property tax revenues levied for road construction exceeding the amount budgeted.

The variance in the Fire Station Fund capital outlay budget was due to faster than anticipated construction progress.

Other Supplemental Information

City of Madison Heights, Michigan

	Nonmajor Special Revenue Funds				
	Curtail Auto Theft	Community Improvement	Forfeiture	Revolving	Court Expansion
Assets					
Cash and investments	\$ -	-	\$ 51,106	\$ 1,372,213	\$ -
Due from other governmental units	19,678	32,369	-	-	-
Special assessments receivable	-	-	-	649,223	-
Total assets	<u>\$ 19,678</u>	<u>\$ 32,369</u>	<u>\$ 51,106</u>	<u>\$ 2,021,436</u>	<u>\$ -</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 15,405	\$ 23,683	\$ 9,500	\$ -	\$ -
Accrued and other liabilities	4,273	8,686	-	2,969	-
Deferred revenue	-	-	-	574,223	-
Total liabilities	19,678	32,369	9,500	577,192	-
Fund Balances - Unreserved					
Designated for subsequent year's expenditures	-	-	-	1,024,604	-
Undesignated	-	-	41,606	419,640	-
Total fund balances	-	-	41,606	1,444,244	-
Total liabilities and fund balances	<u>\$ 19,678</u>	<u>\$ 32,369</u>	<u>\$ 51,106</u>	<u>\$ 2,021,436</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

Nonmajor Debt Service Funds			Total Nonmajor Governmental Funds
Drains	Fire Station	Police Facility	
\$ -	\$ 25,450	\$ -	\$ 1,448,769
-	-	-	52,047
-	-	-	649,223
<u>\$ -</u>	<u>\$ 25,450</u>	<u>\$ -</u>	<u>\$ 2,150,039</u>
\$ -	\$ -	\$ -	\$ 48,588
-	25,450	-	41,378
-	-	-	574,223
-	25,450	-	664,189
-	-	-	1,024,604
-	-	-	461,246
-	-	-	1,485,850
<u>\$ -</u>	<u>\$ 25,450</u>	<u>\$ -</u>	<u>\$ 2,150,039</u>

City of Madison Heights, Michigan

	Nonmajor Special Revenue Funds				
	Curtail Auto Theft	Community Improvement	Forfeiture	Revolving	Court Expansion
Revenues					
Intergovernmental	\$ 63,832	\$ -	\$ -	\$ -	\$ -
Federal sources	-	268,431	-	-	-
Other - Including interest and special assessment revenues	-	-	52,910	311,314	-
Total revenues	63,832	268,431	52,910	311,314	-
Expenditures					
Current:					
Public safety	89,776	-	9,500	-	-
Community development and improvement	-	124,401	-	-	30,165
Capital outlay	-	-	58,067	210,914	-
Debt administration	-	-	-	-	-
Total expenditures	89,776	124,401	67,567	210,914	30,165
Excess of Revenues Over (Under) Expenditures	(25,944)	144,030	(14,657)	100,400	(30,165)
Other Financing Sources (Uses)					
Operating transfers in	25,944	-	-	-	18,998
Operating transfers out	-	(144,030)	-	-	-
Total other financing sources (uses)	25,944	(144,030)	-	-	18,998
Net Change in Fund Balances	-	-	(14,657)	100,400	(11,167)
Fund Balances - July 1, 2002	-	-	56,263	1,343,844	11,167
Fund Balances - June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,606</u>	<u>\$ 1,444,244</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003

Nonmajor Debt Service Funds			Total Nonmajor Governmental Funds
Drains	Fire Station	Police Facility	
\$ -	\$ -	\$ -	\$ 63,832
-	-	-	268,431
-	-	-	364,224
-	-	-	696,487
-	-	-	99,276
-	-	-	154,566
-	-	-	268,981
11,393	-	-	11,393
11,393	-	-	534,216
(11,393)	-	-	162,271
-	-	-	44,942
(123,910)	-	(23,768)	(291,708)
(123,910)	-	(23,768)	(246,766)
(135,303)	-	(23,768)	(84,495)
135,303	-	23,768	1,570,345
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,485,850</u>

City of Madison Heights, Michigan

Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2003

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
Additions			
Investment income:			
Interest and dividends	\$ -	\$ 1,553,293	\$ -
Appreciation of investment value	-	476,484	-
Net investment income	-	2,029,777	-
Employee contributions	613,140	-	-
City contributions:			
Pension benefits	-	951,923	-
Postretirement benefits	-	807,320	-
Investment and administrative expenses	-	437,778	-
Total contributions	613,140	2,197,021	-
Total additions	613,140	4,226,798	-
Deductions			
Pension payments	-	-	(2,793,693)
Postretirement benefits	-	(807,320)	-
Trustee fees and other investment-related expenses	-	(228,638)	-
General administrative expenses	-	(209,140)	-
Total deductions	-	(1,245,098)	(2,793,693)
Transfers			
Investment loss allocation	140,434	(2,189,516)	2,049,082
Transfer for retirees	-	(1,453,127)	1,453,127
Withdrawals	(226,629)	-	-
Net Increase (Decrease)	526,945	(660,943)	708,516
Net Assets Held in Trust for Pension Benefits			
Beginning of year	4,335,917	9,391,918	30,613,177
End of year	<u>\$ 4,862,862</u>	<u>\$ 8,730,975</u>	<u>\$ 31,321,693</u>

Statistical Section

City of Madison Heights, Michigan

General Government Expenditure History (1) Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year				Community and		Capital		
Ended	General		Economic	Recreation	Outlay	Debt	Total	
June 30	Government	Public Safety	Development	and Culture	(2)	Administration	Expenditures	
1994	\$ 3,797	\$ 9,036	\$ 5,302	\$ 1,517	\$ -	\$ 884	\$ 20,536	
1995	3,680	8,999	5,130	1,375	1,212	852	21,248	
1996	3,690	9,330	4,362	1,322	2,432	834	21,970	
1997	3,592	9,590	4,767	1,458	2,168	831	22,406	
1998	4,060	9,582	4,557	1,532	4,568	865	25,164	
1999	4,382	10,231	4,851	1,589	3,112	724	24,889	
2000	5,378	11,195	4,437	2,478	3,629	747	27,864	
2001	5,493	11,237	5,343	2,516	3,220	210	28,019	
2002	5,608	12,110	5,912	2,656	2,393	46	28,725	
2003	5,416	12,520	5,254	2,314	3,533	11	29,048	

(1) Includes all governmental fund types under modified accrual accounting

(2) Prior to 1995, capital outlay was included in the respective general government, public safety, community development and improvement, and cultural and recreation categories

Source: City's annual financial statements

City of Madison Heights, Michigan

General Government Revenues History (1) Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year Ended June 30	General Property Taxes	Licenses and Permits	Inter- governmental Revenue	Charges for Services	Court Fines and Fees	Interest and Miscellaneous Revenues	Total Revenues
1994	\$ 11,763	\$ 431	\$ 5,033	\$ 709	\$ 1,242	\$ 1,454	\$ 20,632
1995	11,856	532	5,772	713	1,189	1,533	21,595
1996	12,203	521	6,101	706	1,190	1,802	22,523
1997	12,658	661	6,514	814	1,159	2,082	23,888
1998	14,740	707	6,257	940	1,010	1,765	25,419
1999	15,457	732	6,395	899	1,173	2,253	26,909
2000	15,943	730	6,601	1,192	1,509	2,727	28,702
2001	16,239	515	6,351	1,152	1,473	3,301	29,031
2002	16,755	899	6,266	1,319	1,443	2,556	29,238
2003	17,291	693	5,766	1,415	1,282	2,132	28,579

(1) Includes all governmental fund types

Source: City's annual financial statements

City of Madison Heights, Michigan

General Government Selected Intergovernmental Revenues by Source (1) Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Grants	Income Tax	Sales Tax	Single Business Tax (SBT)	SBT Inventory Property Tax Replacement	Gas and Weight Tax	Total
1994	\$ 191	\$ 577	\$ 1,601	\$ 430	\$ 596	\$ 1,266	\$ 4,661
1995	214	661	1,661	510	593	1,293	4,932
1996	224	640	1,745	564	595	1,324	5,092
1997(2)	120	50	3,044	-	614	1,308	5,136
1998	108	-	3,234	-	614	1,631	5,587
1999	164	-	3,444	-	614	1,661	5,883
2000	178	-	4,046	-	-	1,744	5,968
2001	293	-	4,173	-	-	1,735	6,201
2002	356	-	4,042	-	-	1,714	6,112
2003	308	-	3,551	-	-	1,872	5,731

- (1) Includes revenues from certain State sources that were recorded in the City's various governmental fund-type funds
- (2) During fiscal year 1997, the State changed its method of allocation revenue-sharing distributions.

Source: The City's finance department records

City of Madison Heights, Michigan

Tax Levy History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	City (1)	School	County	Total
1994	\$ 11,273	\$ 23,983	\$ 6,117	\$ 41,373
1995	11,506	16,769	6,082	34,357
1996	11,714	17,428	6,994	36,136
1997	12,113	18,585	7,154	37,852
1998	14,585	19,543	7,344	41,472
1999	14,674	21,419	7,439	43,532
2000	16,984	22,793	8,110	47,887
2001	17,237	23,455	8,056	48,748
2002 (2)	17,016	25,147	10,026	52,189
2003	17,480	26,354	10,772	54,606

(1) In addition to the tax levy, the City includes in property tax revenue the captured TIFA and DDA taxes as well as collection fees, penalties, and related items.

(2) TIFA capture was discontinued.

Source: City's finance department records

City of Madison Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Levy	Current Collections in Fiscal Year	Percent Collected in Fiscal Year	Delinquent Collections in Fiscal Year	Total Current and Delinquent Collections to 6/30/02	Percent Collected to 6/30/02	Delinquent Taxes Receivable at Fiscal Year End (1)
1994	\$ 11,273	\$ 11,217	99.50	\$ 70	\$ 11,287	100.12	\$ 181
1995	11,506	11,448	99.50	55	11,503	99.97	179
1996	11,714	11,664	99.57	61	11,725	100.09	170
1997	12,113	11,991	98.99	58	12,049	99.47	153
1998	14,178	13,973	98.55	60	14,033	98.98	144
1999	16,405	16,284	99.26	95	16,379	99.84	155
2000	16,984	16,921	99.63	63	16,984	100.00	176
2001	17,237	16,972	98.46	102	17,074	99.05	295
2002	17,016	16,671	97.97	119	16,790	98.79	455
2003	17,480	17,167	98.21	195	17,362	99.32	249

(1) On the governmental funds balance sheet, the City reserved the entire balance of delinquent taxes receivable outstanding at year end.

Source: City's finance department records

City of Madison Heights, Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years (Unaudited)

Fiscal Year Ended June 30	City	Schools (1)		County	Total	
		Homestead	Nonhomestead		Homestead	Nonhomestead
1994	\$ 14.98	\$ 37.01	\$ 37.01	\$ 8.13	\$ 60.12	\$ 60.12
1995	15.02	8.76	22.76	7.93	31.71	45.71
1996	15.17	10.25	20.15	9.06	34.48	44.38
1997	15.17	11.13	21.82	8.97	35.27	45.96
1998	17.14	10.48	21.41	8.60	36.22	47.15
1999	17.04	16.67	27.77	8.53	42.24	53.34
2000	16.79	17.38	28.51	8.92	43.09	54.22
2001	16.63	17.20	28.87	8.66	42.49	54.16
2002	16.22	17.21	28.58	10.01	43.44	54.81
2003	15.89	16.98	28.50	10.28	43.15	54.67

Note - All rates are expressed in dollars per \$1,000 of taxable value.

(1) Amounts represent a simple average of the three school districts within the City: Lamphere, Madison, and Royal Oak.

Source: City's finance department's records

City of Madison Heights, Michigan

General Tax Information (Unaudited)

	City, Including DDA, and First Half School Taxes	County and Second Half School Taxes
Date billed	7/1	12/1
Payment period	City 7/1 to 6/30 Schools 7/1 to 12/31	County 1/1 to 12/31 Schools 1/1 to 6/30

All Taxes - City, County, and School

Delinquent real property taxes are returned to the City Treasurer for collection on March 1. Tax sales are conducted by the County after taxes are delinquent for three years. Property is deeded to the State after five years' delinquency. Land sale by State after five years.

City of Madison Heights, Michigan

Taxable Valuation History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Real Property Taxable Valuation	Personal Property Taxable Valuation	Total Taxable Valuation
1994	\$ 612,285	\$ 140,235	\$ 752,520
1995	622,448	143,602	766,050
1996	622,185	149,971	772,156
1997	636,133	162,344	798,477
1998	668,505	169,324	837,829
1999	686,323	184,253	870,576
2000	721,018	188,567	909,585
2001	773,733	175,823	949,556
2002	820,884	182,498	1,003,382
2003	869,225	180,758	1,049,983

Note The schedule represents final assessed taxable value after Board of Review and Michigan Tax Tribunal adjustments. Amounts exclude captured TIFA and DDA valuation increments, where applicable.

Source: City Assessor's department records

City of Madison Heights, Michigan

Principal Taxpayers
June 30, 2003
(Unaudited)
(amounts expressed in thousands)

	Real Property Taxable Valuation	Personal Property Taxable Valuation	Total Taxable Valuation	Percentage of Current City Total Taxable Valuation
Gordon Begin Co. (GOBE)	\$ 18,227	\$ -	\$ 18,227	1.74
Liberty Property Trust	17,163	-	17,163	1.64
S & M Heights	13,832	-	13,832	1.32
Detroit Edison Co.	598	12,304	12,902	1.23
Meijer, Inc.	8,757	3,070	11,827	1.13
BT-OH, LLC (UPS)	8,713	1,246	9,959	0.95
Saturn, 12-75 LTD, EDS	4,573	4,393	8,966	0.86
First Industrial LP	8,085	-	8,085	0.77
New Horizon Co-op Apartments	7,664	23	7,687	0.73
Great Lakes Property Group Trust	7,586	31	7,617	0.73
Ogura Corporation	2,197	5,261	7,458	0.71
Dayton-Hudson (Target/Mervyn's)	6,068	1,079	7,147	0.68
The Berman Family, LLC	2,214	4,698	6,912	0.66
Ramco-Gershenson/Kmart	6,374	-	6,374	0.61
Costco	4,831	859	5,690	0.54
Commercial Steel Treating	1,988	3,675	5,663	0.54
Home Depot USA, Inc.	4,285	766	5,051	0.48
Howard Plating	2,424	2,251	4,675	0.45
TFSA/Ring Screw	1,239	2,516	3,755	0.36
Sapphire Investment Associates	3,689	-	3,689	0.35
Total	\$ 130,507	\$ 42,172	\$ 172,679	16.48

Note - The schedule represents the final assessed taxable values after Board of Review and Michigan Tax Tribunal adjustments (valuations as of December 31, 2001).

Source: City Assessor's department records

City of Madison Heights, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

<u>Fiscal Year Ended June 30</u>	<u>Current Special Assessment Installment Due</u>	<u>Current Special Assessment Collection (I)</u>	<u>Ratio of Collections to Amount Due</u>	<u>Total Outstanding Special Assessments</u>
1994	\$ 319	\$ 319	100	\$ 963
1995	221	221	100	723
1996	249	249	100	618
1997	204	204	100	682
1998	342	342	100	727
1999	395	395	100	622
2000	366	366	100	916
2001	305	305	100	948
2002	271	271	100	789
2003	299	299	100	649

(I) Current special assessment collections represent collections of installments currently due without regard to early payoffs.

Source: City's finance department records

City of Madison Heights, Michigan

Net Bonded Debt History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Federal Census Population	Taxable Valuation (2)	General Obligation Bonds Outstanding (1)	Percent of Debt to Taxable Valuation	Debt per Capita (3)
1994	32	\$ 752,520	\$ 2,801	.37	\$ 87.53
1995	32	766,050	2,432	.32	76.00
1996	32	772,156	2,040	.26	63.75
1997	32	798,477	1,620	.20	50.63
1998	32	837,829	1,150	.14	35.94
1999	32	870,576	675	.08	21.09
2000	32	909,585	150	.02	4.68
2001	31	949,556	-	-	-
2002	31	1,003,382	-	-	-
2003	31	1,049,983	5,925	.56	191.13

(1) Amount does not include Revenue Bonds, contractual drain obligations, or water and sewer general obligations.

(2) From taxable valuation history schedule

(3) Amounts expressed in dollars

City of Madison Heights, Michigan

Computation of Legal Debt Margin June 30, 2003 (Unaudited) (amounts expressed in thousands)

2003 total taxable value	<u>\$ 1,049,983</u> (1)
Legal debt limit (2) (10 percent of total assessed valuation) (3)	\$ 104,998
Amount of bonded debt applicable to debt limit	<u>5,925</u> (4)
Legal debt margin	<u>\$ 99,073</u>

(1) Amount excludes captured DDA valuation increments.

(2) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(3) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

(4) Amount does not include revenue bonds or water and sewer general obligations.

City of Madison Heights, Michigan

Computation of Direct and Overlapping Debt June 30, 2003 (Unaudited)

(amounts expressed in thousands)

Jurisdiction	Net General Obligation Debt Outstanding	Percent Applicable to City	City Share of Net Debt
Direct Debt - City of Madison Heights	\$ 5,925,000	100.00	\$ 5,925,000 (1)
Overlapping Debt			
Madison School District	18,315,000	100.00	18,315,000
Lamphere School District	29,860,000	86.09	25,706,474
Royal Oak School District	25,426,000	0.43	109,332
Oakland Community College	12,895,000	2.08	268,216
Oakland County at large	76,893,544	2.07	1,591,696
Oakland Intermediate School District	350,000	2.08	7,280
Total overlapping debt			<u>45,997,998</u>
Total direct and overlapping debt			<u><u>\$ 51,922,998</u></u>

(1) Amount does not include revenue bonds or water and sewer general obligations.

Source: Various taxing authorities

City of Madison Heights, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt (1) to Total General Government Expenditures (2) Ten-year Summary (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30				Debt Service as a Percentage of	
	Principal	Interest	Total Debt Service	Total General Government Expenditures	General Government Expenditures
1994	\$ 319	\$ 169	\$ 488	\$ 20,536	2.4
1995	369	149	518	21,248	2.4
1996	392	128	520	21,970	2.4
1997	420	104	524	22,406	2.3
1998	470	79	549	25,164	2.2
1999	475	53	528	24,889	2.1
2000	525	27	552	27,864	1.9
2001	150	9	159	28,019	0.6
2002	-	-	-	28,725	-
2003	-	-	-	29,048	-

(1) Includes general obligation bonds (exclusive of water and sewer general obligations), municipal building authority bonds, and motor vehicle highway bonds

(2) Includes all governmental fund types

Source: City's annual financial statements

City of Madison Heights, Michigan

Demographic Statistics Ten Year Summary (Unaudited)

Fiscal Year Ended June 30	Federal Census Population	Per Capita Income (1)	Median Age (1)	Education Level in		Unemployment Rate (Percent) (3)
				Years of Formal Schooling (1)	School Enrollment (2)	
1994	32,196	(4)	(4)	12.0	2,268	5.3
1995	32,196	14,192	32.6	12.0	2,260	5.2
1996	32,196	14,192	32.6	12.0	2,283	3.9
1997	32,196	14,192	32.6	12.0	2,250	3.5
1998	32,196	14,192	33.0	12.0	2,250	3.5
1999	32,196	14,192	33.0	12.0	2,250	2.7
2000	32,196	14,192	33.0	12.0	5,382	2.9
2001	31,101	21,429	36.1	12.0	5,354	4.5
2002	31,101	21,429	36.1	12.0	5,117	6.0
2003	31,101	21,429	36.1	12.0	5,106	6.5

Sources:

(1) Federal register

(2) Through 1999 includes only Madison School District - "Fourth Friday Count" (does not include Adult Education Enrollment). Years subsequent to 1999 include Madison and Lamphere School Districts as well as Bishop Foley and St. Vincent Schools.

(3) Michigan Employment Security Commission

(4) Unavailable

City of Madison Heights, Michigan

Fiscal Year Ended June 30	Construction Value (1)	Number of Permits		Bank Deposits (2)
		New Construction (1)	Demolition (1)	
1994	\$ 10,535,317	1,414	17	\$ 50,753,000
1995	16,533,935	1,409	11	63,215,000
1996	13,047,273	1,278	6	48,911,000
1997	21,265,191	1,477	8	50,000,000
1998	23,049,836	1,204	19	49,500,000
1999	35,000,000	1,050	21	50,000,000
2000	27,529,563	645	12	51,000,000
2001	11,909,199	997	25	52,500,000
2002	31,380,365	993	2	53,000,000
2003	27,761,593	833	15	53,500,000

**Real Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years
(Unaudited)**

Assessed Real Property Value (3)

Commercial	Industrial	Residential
\$ 163,296,600	\$ 163,546,100	\$ 315,992,400
164,362,530	165,832,070	322,644,440
170,909,640	169,249,300	341,686,780
175,495,330	171,098,160	366,829,650
201,205,900	190,124,730	410,860,570
218,399,560	224,776,910	451,712,500
230,421,950	241,005,700	493,028,520
246,378,110	254,755,720	534,479,040
274,073,560	263,456,110	573,426,250
286,534,630	269,127,700	611,904,340

Sources:

- (1) City Community Development Director. New construction permits for residential, commercial, and apartment projects issued during the fiscal year. Construction value based on these as well as all other permits issued.
- (2) First of America Bank, Madison Heights, Michigan branch
- (3) City Assessor - Amounts represent original assessed taxable value before Board of Review and Michigan Tax Tribunal adjustments.

City of Madison Heights, Michigan

Miscellaneous Statistical Data (Unaudited)

The City of Madison Heights was incorporated January 17, 1955 under Home Rule Act 279 P.A. 1909, as amended, and is administered by a city manager, mayor, and council. It is located in Southeast Oakland County and is approximately seven (7) square miles in area.

The estimated 31,000 residents of the City of Madison Heights are provided various services by the 223 persons employed by the City.

Statistical data related to City services at June 30, 2003 is as follows:

Street service:

Paved streets	106.00 miles
Sidewalks	199.50 miles
Street lighting	1,830 units

Water and sewer service:

Water mains	131 miles
Consumers:	
Residential	9,619
Commercial	1,315
Sanitary sewers	111 miles
Storm sewers	52 miles

Protective services - Fire protection:

Stations	2
Employees	40
Hydrants	1,115

Police protection:

Employees	78
Crossing guards	17
Patrol vehicles	12
Number of traffic violations issued	10,209
Police reserve members	32

Culture, education, and recreation:

Libraries	2
Schools by type:	
Elementary	8
Middle	2
Senior	3
Parks	14
Area of parks	131.43 acres